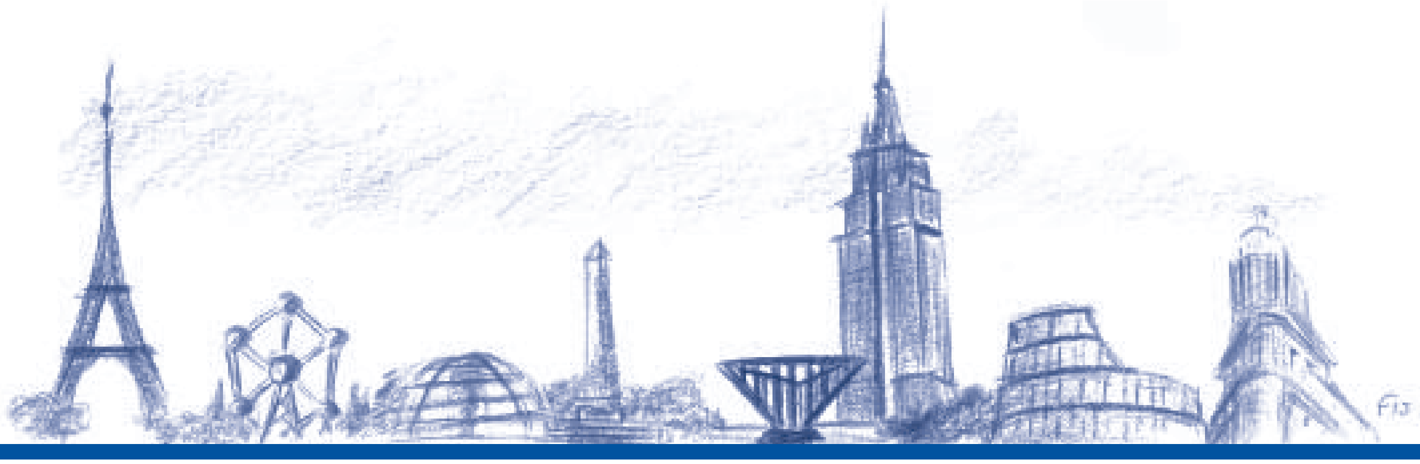
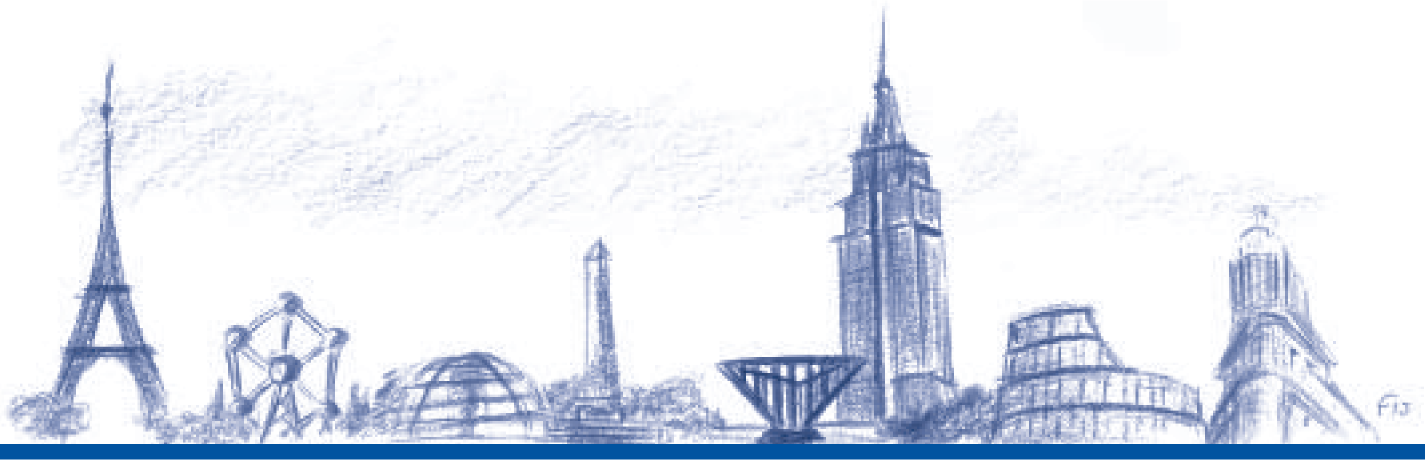
2016

Annual report
DEXIA CRÉDIT LOCAL

DEXIA CRÉDIT LOCAL DCL



Registration document 2016



Management report

Message from the Chairmen

Dear shareholders,

The year 2016 saw the economic climate improve in the United States and in Europe. It was nonetheless marked by severe volatility on the financial markets, associated with major political events such as the vote in favour of the United Kingdom leaving the European Union, the presidential elections in the United States and the rejection of the constitutional reform put forward by Prime Minister Matteo Renzi in Italy.

In such a challenging macroeconomic environment, one of our first priorities was therefore to strengthen our governance. Over the year, we thoroughly reorganised the Management Board, with new appointments and an extension of its composition to the post of Chief Operating Officer, vital for continuity of the bank's operational transformation, within the framework of its orderly resolution.

With this widened and renewed governance we undertook an active policy to adapt our structure to the challenge represented by managing an entity in resolution.

We successfully completed our project to centralise Dexia's activities in Spain and Portugal, and this was reflected on 1 November 2016 by the merger by absorption of Dexia Sabadell by Dexia Crédit Local and by the migration of the management of assets and derivatives to the Dexia Crédit Local platforms in Paris.

Furthermore, we broadened our considerations, started in 2015, on the opportunity to outsource certain of the bank's production activities. This initiative would enable us to respond more efficiently to the issues of our orderly resolution from the viewpoint of managing the decrease of our asset portfolio, controlling operating costs and mitigating risks.

In view of the numerous external uncertainties and the increased requirements of the supervisors, we continued to manage our solvency position in a proactive manner and in the second half-year we implemented measures to protect our regulatory capital. These measures, aligned in particular to the disposal of assets with a high risk weight and holdings directly deducted from capital, enabled us to strengthen our Total Capital ratio, which was 13.4% as at 31 December 2016.

We are posting a net income Group share of 442 million euros as at 31 December 2016. This positive result, formed mostly of exceptional elements, strengthens the Group solvency but cannot however constitute an extrapolation basis for the future. These are the figures for a bank in resolution which remains particularly sensitive to the volatility of the macroeconomic context.

Just like 2016, with its surprises and its unexpected events, 2017 will doubtless also be marked by economic, political and regulatory uncertainties. For us at Dexia Crédit Local, 2017 will be another very eventful year.

We will continue to prepare for the implementation of the IFRS 9 accounting standard on 1 January 2018. Based on the studies performed so far, the introduction of this new methodology could have a positive net impact on capital as at 1 January 2018. That impact is likely to evolve however, particularly depending on market conditions and normative developments.

We will also be working to improve the management of our operational risk, due to a complex and often obsolete infrastructure. In this regard, ongoing consideration of the possibility to outsource certain production activities is vital.

At the same time, we will remain attentive to the evolution of the cost base and we will endeavour to improve our efficiency by simplifying our working methods, rationalising processes and reducing duplication. Measures to strengthen our solvency will also be implemented.

The conduct of the Dexia Group's resolution, against an uncertain background and in a constantly changing environment, is only possible with the daily commitment of all our staff members. We thank them most sincerely for their unfailing involvement and their dynamism in performing their tasks for Dexia.

We also rely on the support of the States, which guarantee part of our funding, and on our shareholders, but also on a close collaboration with the various stakeholders in the Dexia Group's resolution. We would like to express our gratitude to them.

Wouter Devriendt
Chief Executive Officer
Chairman of the Management Board

Robert de Metz
Chairman of the Board of Directors

Dexia Crédit Local Group profile

A Group in orderly resolution

HHeadquartered in France, where it maintains a banking license, Dexia Crédit Local(1) is the Group's main operating entity, carrying the majority of its assets. Dexia Crédit Local also still has an international presence through its branches in Ireland, the United States, Spain, Portugal and subsidiaries in Germany, Italy and Israel. These entities also hold local banking licences.

The Dexia Crédit Local Group has 1,065 members of staff as at 31 December 2016.

The Group's parent company, Dexia, is a public limited company (société anonyme) and financial company governed by Belgian law whose shares are listed on Euronext Brussels. The Belgian and French States own 94.4% of the Group since the end of 2012 when they made a EUR 5.5 billion capital injection reserved for them. As a significant bank(2), Dexia has been under the direct prudential supervision of the European Central Bank within the framework of the Single Supervisory Mechanism (SSM) since 4 November 2014, as is Dexia Crédit Local Group and the French outer scope.

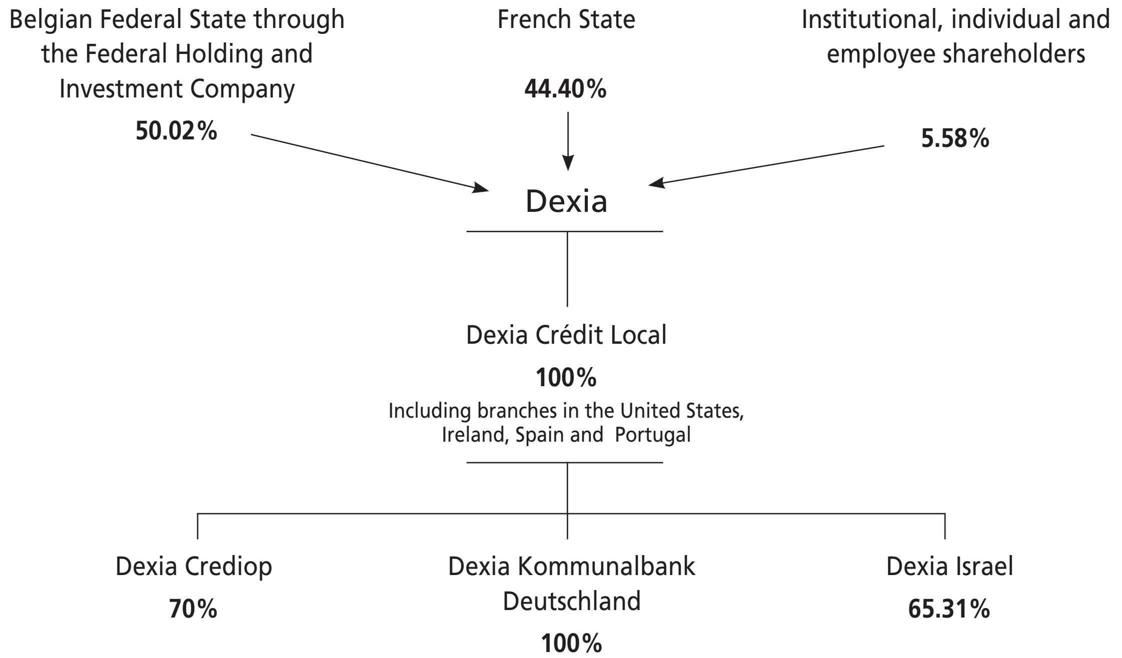
Dexia and Dexia Crédit Local managed under an orderly resolution plan since the end of 2011. Approved by the European Commission in December 2012, Dexia's orderly resolution plan aims to avoid the Group's bankruptcy and liquidation which, given its residual size, could be destabilising to the entire European banking sector. In order to enable the orderly resolution, the Belgian, French and Luxembourg States granted a liquidity guarantee for a maximum principal amount of EUR 85 billion to Dexia Crédit Local, which is consequently the issuer of Dexia Group under the State guarantee format.

Dexia Crédit Local no longer has any commercial activities and is now solely focused on managing its assets in run-off, mainly public sector and sovereign assets, while protecting the interests of the Group's State shareholders and guarantors. To meet this objective, Dexia and Dexia Crédit Local have established three strategic goals:

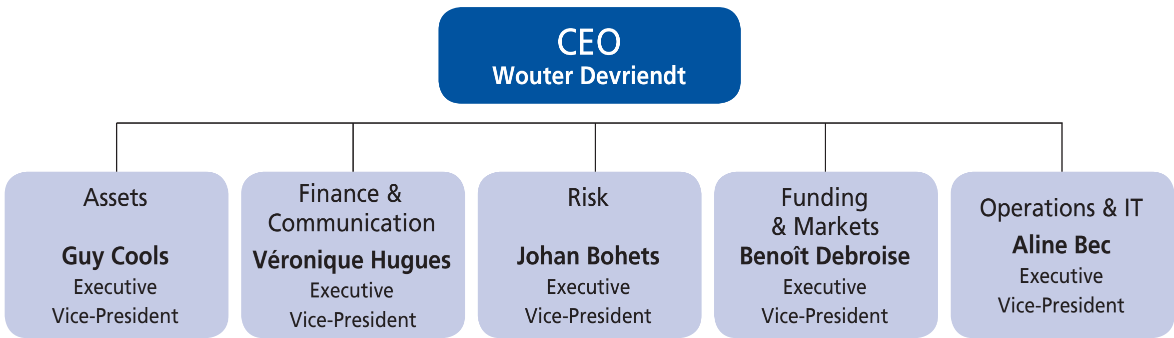
- Maintain the ability to refinance its balance sheet throughout its resolution plan;
- Preserve its capital base in order to comply with regulatory ratios;
- Ensure operational continuity by retaining the necessary expertise and resources and developing appropriate information systems.

(1) Throughout this reference document Dexia Crédit Local refers to Dexia Crédit Local S.A. and Dexia refers to Dexia SA/NV.
(2) Regulation (EU) No. 468/2014 of the European Central Bank of 16 April 2014.

Simplified structure



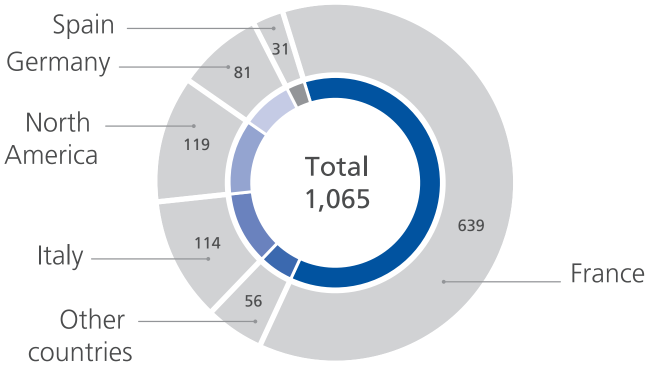
Management board(1)



(1) As at 1 January 2017.

Key figures

MEMBERS OF STAFF AS AT 31 DECEMBER 2016



RESULTS (in EUR million)	2014	2015	2016
Net banking income	(34)	982	711
Costs	(369)	(451)	(410)
Gross operating income	(403)	531	301
Cost of risk	(63)	(175)	138
Net income Group share	(478)	327	442

BALANCE SHEET (in EUR billion)	31/12/2014	31/12/2015	31/12/2016
Balance sheet total	246	229	212

SOLVENCY (in EUR million except where indicated)	31/12/2014	01/01/2015	31/12/2016
Common Equity Tier 1	7,372	6,426	5,676
Total Capital	7,624	6,436	5,802
Risk-weighted assets	51,379	51,111	43,206
Common Equity Tier 1 ratio	14.3%	12.6%	13.1%
Total Capital Ratio	14.8%	12.6%	13.4%

RATINGS AS AT 15 MARCH 2017	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	*Baa3(cr)*		*P-3(cr)*
Standard & Poor's	BBB	Stable	A-2
Dexia Crédit Local (guaranted debt)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (*Pfandbriefe*)			
Standard & Poor's	A	Stable	-

Highlights

Progress of the orderly resolution plan

The year 2016 was marked by historically low interest rates and high volatility on the financial markets, associated with political uncertainty. In this context, the Dexia Crédit Local Group strengthened its governance and continued to implement the orderly resolution plan, focussed on three strategic objectives:

• Maintenance of the Group's funding capacity
• Preservation of core capital and observance of solvency ratios
• Maintenance of operational continuity

Evolution of Dexia Crédit Local's governance

Dexia Crédit Local Group governance underwent profound modification in 2016, with several appointments within the Management Board.

On 17 May 2016, Wouter Devriendt was appointed as Chief Executive Officer of Dexia Crédit Local, replacing Karel De Boeck.

On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, who resigned, as Director and Chief Financial Officer.

Guy Cools was appointed Head of the "Assets" division, replacing Claude Piret, whose mandate ended on 23 October 2016. Guy Cools then joined the Management Board on 1 January 2017.

Finally, in November 2016, Aline Bec was appointed Chief Operating Officer. Considering the importance of this function for Dexia Crédit Local's operational continuity and transformation, Aline Bec joined the Management Board on 1 January 2017.

As a result of these developments, as at 1 January 2017, the Management Board of Dexia Crédit Local is composed of six members:

• Wouter Devriendt, Chief Executive Officer
• Véronique Hugues, Deputy Vice-President and Chief Financial Officer
• Johan Bohets, Deputy Vice-President and Chief Risk Officer
• Benoît Debroise, Deputy Vice-President and Head of "Funding and Markets"
• Guy Cools, Deputy Vice-President and Head of "Assets"
• Aline Bec, Deputy Vice-President and Chief Operating Officer

As the governance of Dexia and Dexia Crédit Local is integrated, the members of the Management Board of Dexia Crédit Local are also members of the Management Board of Dexia.

More detailed information on Dexia Crédit Local's governance is provided in the chapter entitled "Terms of office and remuneration of directors and officers" in this registration document.

Prudent liquidity management combined with an evolution of the funding mix

Despite an uncertain market environment, Dexia Crédit Local optimized favourably its funding structure during 2016.

Dexia Crédit Local's funding volume was strongly reduced as a result of the decline in asset portfolios, amounting to EUR 146.5 billion at the end of 2016, against EUR 162.8 billion at the end of 2015, despite an erratic evolution and high average level of the net cash collateral posted by the bank to its derivatives counterparties.

The fall in the funding volume allowed Dexia Crédit Local to reduce its reliance on funding subscribed with the European Central Bank, currently more costly than market funding. Total outstanding, at EUR 15.9 billion at the end of December 2015, was reduced to EUR 655 million as at 31 December 2016. As a consequence, the funding structure underwent in-depth modification. Most of the Group's funding is now in the form of guaranteed funding and secured market funding, which represent 49% and 41% respectively of Group funding as at 31 December 2016.

More detailed information on Dexia Crédit Local funding in 2016 is provided in the chapter entitled "Information on capital and liquidity" in this registration document.

Preservation of regulatory capital and maintenance of solvency ratios

The preservation of regulatory capital and the maintenance of solvency ratios are key elements of the resolution of Dexia and Dexia Crédit Local.

The progressive deduction of the AFS reserve from regulatory capital, in accordance with the calendar defined by the CRD IV Directive, and the increase of requirements applicable to Dexia in 2017 place significant pressure on the solvency ratios of Dexia and Dexia Crédit Local.

In 2016, Dexia Crédit Local therefore implemented capital relief measures to in order to increase the capital buffer. These measures were aligned to the targeted disposal of assets, allowing a reduction of the AFS reserve and a considerable reduction of risk-weighted assets. They also related to the sale of holdings directly deducted from equity.

Considering these elements, Dexia Crédit Local's Common Equity Tier 1 ratio was 13.1% as at 31 December 2016 and the Total Capital ratio was 13.4%.

As at 1 January 2017, Dexia Crédit Local's Total Capital ratio is estimated at 11.3% for Dexia Crédit Local, therefore above the minimum requirement of 9.875% imposed by the European Central Bank.

In 2017, Dexia Crédit Local will continue to monitor the evolution of its regulatory capital in order to ensure its compliance with the capital requirements set by the European Central Bank. Similarly to 2016, targeted asset sales may be executed in order to improve Dexia Crédit Local's solvency. The solvency in fact remains extremely sensitive to the evolution of external parameters such as credit spreads, interest rates or exchange rates.

More detailed information on Dexia Crédit Local solvency ratios is provided in the chapter entitled "Information on capital and liquidity" in this registration document.

Maintenance of operational continuity and simplification of the Group's structure

In order to successfully manage the run-off of its residual assets, Dexia Crédit Local must maintain its operational continuity. This involves a simplification and a greater integration of its activities. Recourse to outsourcing may also be envisaged to ensure the durability of certain operational activities, while providing cost flexibility.

Centralisation of the activities of Dexia Crédit Local in Spain and Portugal

Dexia Crédit Local has been reflecting for many years on various ways to simplify its operating model, to increase its resilience, to limit and to make its operating expenditure more flexible. This led to a project to centralise the activities until then carried out by Dexia Sabadell S.A., a subsidiary of Dexia Crédit Local based in Madrid, and its branch in Lisbon.

This centralisation of activities became effective on 1 November 2016 with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell. At the same time, two new branches of Dexia Crédit Local, named DCL Sucursal en España and DCL Sucursal em Portugal commenced operation.

On that same date, management of the assets and derivatives of the Spanish and Portuguese entities was migrated to the management systems of Dexia Crédit Local in Paris.

This merger had retroactive accounting effect as at 1 January 2016.

Reflections on outsourcing certain Dexia Crédit Local production activities

Dexia Crédit Local also widened its reflections, originally engaged in 2015, on the opportunity to outsource some market activities to other production functions of the bank, particularly the activities of reporting, transactions processing and IT systems' maintenance and development. This initiative, which only concerns activities in France, would enable Dexia Crédit Local to respond more effectively to the issues of its orderly resolution: a managed wind-down of its asset portfolio, an efficient monitoring of its operational expenditures and an appropriate risk management.

Further simplification of the Group's structure

In line with its willingness to simplify its structure, Dexia Crédit Local undertook the liquidation of Dexia Real Estate Capital Markets (DRECM), which was declared by the State of Delaware on 23 December 2016. It generated a non-significant charge, associated with the booking of cumulative translation adjustments in Dexia Crédit Local's financial statements.

Other significant elements

Evolution of credit risk and the risk associated with structured loans

As at 31 December 2016, Dexia Crédit Local credit portfolio remains of good quality overall with ~90% of exposures rated "investment grade".

The year 2016 was marked by the favourable evolution of cases in relation to Heta Asset Resolution AG in Austria and the structured loans in France.

More detailed information is provided in the chapter entitled "Risk management" in this registration document.

Financial results

Notes regarding the Dexia Crédit Local Group's annual consolidated financial statements 2016

Going concern

The consolidated financial statements of Dexia Crédit Local as at 31 December 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

• The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan.

In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

The business plan revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, but at this stage do not raise questions as to the nature and the fundamentals of the resolution.

• The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

• It moreover assumes that Dexia Crédit Local will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

From this perspective, since validation of the orderly resolution plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled Dexia Crédit Local to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia Crédit Local has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

(1) Deposits or securities posted by Dexia and Dexia Crédit Local to their counterparties as guarantee for interest rate or currency swaps.

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

• It is in particular exposed to the evolution of accounting and prudential rules.

• The financial characteristics of Dexia and Dexia Crédit Local since their entry in resolution do not allow them to ensure compliance with certain regulatory ratios over time.

Dexia and Dexia Crédit Local are also sensitive to the evolution of their macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia to their derivatives counterparties (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of regulatory capital.

Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

Analytical segmentation

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia is now focused on managing its residual assets in run-off, protecting the interests of the Group's State guarantors and shareholders.

In line with the Group's profile, Dexia's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

This analytical presentation of performance is in line with Dexia's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

Notes on accounting and regulatory developments

The IFRS 9 "Financial Instruments" accounting standard was published by the IASB in July 2014 and adopted by the European Union on 22 November 2016. It will enter into force as from 1 January 2018, replacing the IAS 39 "Financial Instruments – Recognition and Measurement" accounting standard.

The impact of the IFRS 9 accounting standard on Dexia's financial statements and its accounting and regulatory capital is in the process of being analysed. At this stage and on the basis of preliminary assessments, Dexia expects the first application of IFRS 9 to have a positive total net impact on the Group's equity as at 1 January 2018. That impact is likely to evolve in relation to a certain number of factors including, in particular, market conditions, legal developments and interpretations which might occur or the calibration of provision models, particularly regarding the macroeconomic scenarios to be retained for that measurement.

More detailed information on the implementation of the IFRS 9 accounting standard is provided in Appendix 1.1.2.4 to the Consolidated Financial Statements in this registration document.

Dexia Crédit Local's consolidated financial statements

Analysis of the consolidated income statement

In 2016 Dexia Crédit Local posted a net income Group share of EUR +442 million.

Over the year, net banking income reached EUR +711 million, compared to an amount of EUR +983 million in 2015. Of that amount, EUR +275 million is attributable to the impact of the valuation of derivatives at fair value by result, against EUR +523 million in 2015, by their nature heavily correlated to variations of market parameters.

Net banking income for the year also includes a positive amount of EUR + 144 million, linked to the active management by the bank of the current situation of negative interest rates. Excluding these elements, the evolution of net banking income includes:

- Income from the asset portfolios, which follows a downward trend from one quarter to another, as the reduction of the asset portfolios is logically accompanied by a reduction of income;
- The funding cost, which is relatively stable from one quarter to the next. In 2016, the non-eligibility of the guaranteed debt issued by Dexia Crédit Local for European Central Bank securities purchase programmes tended to increase funding cost. Nonetheless, this trend was offset by the reduction of the volume of funding raised and by the evolution of their nature, with a reduction of funding subscribed with the European Central Bank, which is currently more costly for Dexia Crédit Local;
- Income principally corresponds to income linked to active asset and liability management (ALM).

Operating costs were EUR -410 million over 2016. These include EUR 112.8 million in bank levies and contributions to the resolution fund. Excluding these levies and contributions, operating expenditure was controlled.

Gross operating income was therefore positive, at EUR +301 million over the year.

The cost of risk and net gains and losses on other assets positively contributed to the result, in an amount of EUR +194 million, including EUR +138 million attributable to the cost of risk. In particular, it includes the reversal of the impairment for the Group's exposure to Heta Asset Resolution AG, in an amount of EUR+ 136 million. Net gains and losses on other assets include the gain on the disposal of the CBX Tower in La Défense (EUR +50 million).

Considering these elements, pre-tax income totalled EUR +495 million.

Over the year, the fiscal impact was EUR -54 million.

Net income attributable to minority interests was EUR 1 million, leading to a net income Group share for the year 2016 of EUR +442 million.

CONSOLIDATED INCOME STATEMENT - ANC FORMAT

(in EUR million)	2015	2016
Net banking income	**982**	**711**
Operating expenses	(451)	(410)
Gross operating income	**531**	**301**
Cost of risk and net gains or losses on other assets	(161)	194
Pre-tax income	**370**	**495**
Income tax	(37)	(54)
Net income	**333**	**441**
Minority interests	(6)	1
Net income Group share	**327**	**442**

Evolution of the consolidated balance sheet

As at 31 December 2016, the Dexia Crédit Local consolidated balance sheet total was EUR 212 billion, down EUR -17.3 billion on 31 December 2015.

At a constant exchange rate, the annual decline in assets on the balance sheet was mainly associated with the reduction of the asset portfolio. At the end of 2016, the asset portfolio amounted to EUR116.9 billion, down by EUR -15.3 billion since the end of 2015, including EUR -10.2 billion in natural amortisations and EUR -5 billion in disposals and early redemptions. In 2016, priorities with regard to asset disposals focussed on increasing solvency, by targeting heavily weighted assets, and on risk reduction.

On the liabilities side and at a constant exchange rate, the annual decline in the balance sheet is mainly reflected by a EUR -16.1 billion reduction of the market and central bank funding stock.

Over the year, the impact of foreign exchange fluctuations on the evolution of the balance sheet amounted to EUR +0.8 billion.

The balance sheet evolution was extremely contrasted over the year 2016, due to its sensitivity to interest and exchange rates. In the first quarter, the balance sheet total increased, reflecting lower interest rates which generated an increase of the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties and of the valuation of elements at fair value, as well as the increase of the liquidity reserve placed with central banks. The trend reversed in the second and third quarters, with the reduction of the asset portfolios and outstanding placed with central banks more than offsetting the effect of lower interest rates. This downward trend accelerated in the fourth quarter, in a more favourable context for Dexia Crédit Local, with a gradual rise of interest rates.

Information country by country

All the entities of the Dexia Crédit Local Group are managed in run-off, with the exception of Dexia Israel, in order to protect the value of its commercial franchise, from the viewpoint of disposal. Furthermore, Dexia Crédit Local observes the principles of the Foreign Account Tax Compliance Act (FATCA) as well as the principles adopted by the OECD and the G20 on the implementation of international standards aimed at improving fiscal transparency and the exchange of information for tax purposes.

1. ESTABLISHMENTS AND THE NATURE OF THEIR ACTIVITY

Germany	
Dexia Kommunalbank Deutschland AG	Bank, credit institution
Spain	
DCL Sucursal en España	Bank, credit institution
United States	
DCL New York Branch	Bank, credit institution
Dexia Holdings, Inc	Holding company
Dexia Delaware LLC	Other financial activities
Dexia FP Holdings Inc	Other financial activities
Dexia Financial Products Services LLC	Other financial activities
FSA Asset Management LLC	Other financial activities
FSA Capital Markets Services LLC	Other financial activities
FSA Capital Management Services LLC	Other financial activities
France	
Dexia Crédit Local SA	Bank, credit institution
CBX.IA 2	Acquisition of land, buildings, real estate rights
Dexia CLF Régions Bail	Real estate leasing
Dexia Flobail	Financing local investments by credit-lease
Dexia CLF Banque	Bank, credit institution
Cayman Islands	
FSA Global Funding LTD	Other financial activities
Premier International Funding Co	Other financial activities
Ireland	
Dexia Crédit Local, Dublin Branch	Bank, credit institution
Dexia Crediop Ireland	Other financial activities
WISE 2006-1 PLC	Other financial activities
Israel	
Dexia Israel Bank Ltd.	Bank, credit institution
Italy	
Dexia Crediop	Bank, credit institution
Tevere Finance S.r.l	Other financial activities
Japan	
Sumitomo Mitsui SPV	Other financial activities
Portugal	
DCL sucursal em Portugal	Bank, credit institution
United Kingdom	
FSA Portfolio Asset Limited (UK)	Other financial activities

2. DATA PER COUNTRY

Country of establishment	Net banking income (in EUR million)	Pre-tax income (in EUR million)	Current tax (in EUR million)	Workforce
Germany	54	161	0	81
Spain	37	26	(8)	32
United States	42	(41)	0	119
France	272	93	(2)	652
Cayman Islands	(22)	(22)	0	0
Ireland	227	250	1	30
Israel	31	20	(7)	47
Italy	68	6	(3)	113
Japan	(2)	(2)	0	0
Portugal	7	7	0	3
United Kingdom	(2)	(2)	0	0

Information under the Eckert Law

Regarding the information referred to in Article L. 312-19 and line 1(4) of Article L. 312-20 of the Eckert Law, Dexia Crédit Local declares that it has the following accounts:

(in EUR)	31/12/2016
Number of inactive open accounts	1
Outstanding deposits and assets in those inactive accounts	8,704
Number of the account on which assets are deposited with the Caisse des dépôts et consignations (CDC)	ns
Total amount of funds deposited with the CDC	0

Dexia Crédit Local's statutory financial statements

Evolution of the income statement

The **net income** of Dexia Crédit Local for the 2016 financial year was EUR -217 million, against EUR +60 million in 2015. It is principally marked by the transformation of the group's refinancing structure and the entry of the Madrid and Lisbon branches into the corporate scope.

Net banking income was positive at EUR +661 million in 2016, against EUR +314 million at the end of 2015.

The interest margin was up over the year, at EUR 243 million. In particular, it includes the costs of State guarantees (EUR -31.5 million) and the spreading of the discount linked to the reclassification in 2013 of securities available for sale as securities held to maturity (EUR +110 million).

Furthermore, gains were realised within held-for-trading and available-for-sale portfolios in an amount of EUR 342 million. They consist of EUR 172 million in gains on the available-for-sale portfolio (offset by an equivalent loss on hedge swaps, booked as interest margin) and EUR 193 million of reversals of provisions on the available-for-sale portfolio essentially originating from the New York branch.

As for the held-to-maturity portfolio, the gains associated with the disposal of securities amounted to EUR +84 million.

Operating costs (excluding allocations to amortisations and depreciations of (in)tangible assets were EUR -287 million over the year 2016, down 3.2% on 2015. They represent a reduction of EUR -20 million compared the 2015 scope but include this year operating expenses from the Madrid and Lisbon branches, in an amount of EUR 11 million.

The **cost of risk** increased from EUR -7 million in 2015 to EUR -10 million at the end of 2016. It mainly consisted of:

- a reversal of provisions for risks of EUR +11 million in relation to loan desensitisation activity;
- a repayment of EUR -31 million within the New York branch, linked to the energy sector.

The item **gains/losses on fixed assets** amounted to EUR -550 million. It essentially consists of the repayment of capital of Dexia Kommunalkredit Deutschland in an amount of EUR -560 million and the gain of EUR +12 million relating to the liquidation of the subsidiary Dexia Real Estate Capital Markets.

Balance sheet evolution

The balance sheet total as at 31 December 2016 was EUR 135.1 billion, against EUR 138.4 billion in 2015, down 2.4%. Applying Article R 511-16-1 of the Monetary and Financial Code, the Dexia Crédit Local return on assets, calculated by dividing the net result by the balance sheet total, was -1.6% in 2016.

A - Assets

Customer loans

As at 31 December 2016, total customer loans were up 7.3% at EUR 35.1 billion (against EUR 32.7 billion at the end of December 2015), in view of the entry of the DCL Madrid and DCL Lisbon branches into the corporate scope.

Held-for-trading, available-for-sale and held-to-maturity securities

The total value of securities held was EUR 37 billion, against EUR 38 billion at the end of 2015. The evolution of the different portfolios is presented in the notes to the financial statements. They essentially consist of French and foreign bonds, negotiable debt securities and government securities. The fall of the securities portfolio is explained by disposals and natural amortisation of the portfolio.

INCOME STATEMENT

(in EUR million)	2015	2016
Net banking income	**314**	**661**
Operating expenses	(300)	(295)
Gross operating income	**14**	**366**
Cost of risk	(7)	(10)
Operating income	**7**	**356**
Capital gains (losses) on non-current assets	52	(550)
Pre-tax income	**59**	**(194)**
Corporate income tax (expense)	1	(23)
Net income	**60**	**(217)**
Basic earnings (loss) per share (in EUR)	*0.27*	*(0.78)*
Diluted earnings per share (in EUR)	*0.27*	*(0.78)*

Equity investments, shares in affiliated enterprises

Equity investments were at EUR 0.6 billion, against EUR 13 billion at the end of 2015.

This fall results from the impairment of the Dexia Crédit Local holding in Dexia Kommunalkredit Deutschland in an amount of EUR -560 million, the liquidation of the Dexia Real Estate Capital Markets holding for EUR 60 million and the reduction of capital of the SARL CBXIA2 for EUR 69 million.

There was no acquisition in 2016.

Other assets

The item "Other assets" was EUR 28 billion, against EUR 27.5 billion at the end of 2015.

The cash collateral remained stable between 2015 and 2016 and was EUR 27.4 billion as at 31 December 2016.

B - Liabilities

Banks and financial institutions

The Dexia Crédit Local debt with credit institutions was EUR 40 billion as at 31 December 2016, against EUR 53.3 billion at the end of 2015.

The portion of central bank funding represented EUR 0.8 billion as at 31 December 2016, against EUR 4.5 billion as at 31 December 2015.

Debt securities

The debt securities in total liabilities are a characteristic element of the Dexia Crédit Local balance sheet. As at 31 December 2016, this amount was EUR 76 billion, against EUR 66 billion at the end of 2015 and represented the amount of bond debts issued by Dexia Crédit Local and for the most part benefiting from the guarantee of the French, Belgian and Luxembourg States.

Delays in paying suppliers

Applying Articles L. 441-6-1 and D. 441-4 of the French Commercial Code, Dexia Crédit Local must each year publish a breakdown of the balance of its debts to suppliers by due date. The supplier debts of Dexia Crédit Local represent an insignificant amount of the company's balance sheet total. Dexia Crédit Local's practice is to settle its invoices at 45 days unless a contractual agreement signed with the supplier provides for a settlement deadline of 30 days or 60 days as the case may be.

Supplier debts were EUR 3.5 million as at 31 December 2016.

Five-year financial summary

	2012	2013	2014	2015	2016
FINANCIAL SITUATION					
Share capital (in EUR)	1,286,032,212 (1)	1,286,032,212	223,657,776 (2)	223,657,776	279,213,332 (3)
Number of shares	223,657,776	223,657,776	223,657,776	223,657,776	279,213,332
COMPREHENSIVE INCOME (IN EUR)					
Revenues	3,627,154,228	2,073,786,463	1,608,398,829	1,432,949,370	2,861,425,520
Earnings before income tax, depreciation, amortisation and net impairment charges	(2,617,452,491)	(1,726,311,574)	(105,198,739)	209,875,341	160,629,999
Corporate income tax	(15,803,247)	(118,600,706)	(3,079,383)	886,101	(22,784,693)
Earnings after income tax, depreciation, amortisation and net impairment charges	(932,703,020)	(25,026,743)	(747,087,790)	60,179,506	(216,780,648)
Dividends	Nil	Nil	Nil	Nil	Nil
DATA PER SHARE (IN EUR)					
Revenues	16.22	9.27	7.19	6.41	10.25
Earnings before income tax and before amortisation and net impairment charges	(11.7)	(8.25)	(0.47)	0.94	0.49
Corporate income tax	(0.07)	(0.53)	(0.01)	0.00	(0.08)
Earnings after income tax, amortisation and net impairment charges	(4.17)	(0.11)	(3.34)	0.27	(0.78)
Dividends	0	0	0	0	0
EMPLOYEE DATA					
Employees as at 31 December	1,132	922	805	793	811
Managerial staff	885	729	644	640	638
Administrative staff	247	193	161	153	173
Gross payroll (in EUR)	84,162,812	100,668,306	81,251,269	79,595,293	80,733,095
Payroll taxes and employee benefits (social security, employee benefit programmes, etc.) in EUR	32,379,243	30,914,577	24,803,347	25,302,829	24,401,805

(1) The capital increase significantly altered the Group's ownership structure, with the Belgian and French governments respectively owning 50.02% and 44.40% of the capital of Dexia following the issue of new shares.
This increase enabled Dexia to subscribe to the capital increase of its subsidiary Dexia Crédit Local. the board of directors of which decided at its meeting on 19 December 2012, in accordance with the authority granted to it at the shareholders' meeting held on 12 December 2012, to increase the capital by approximately EUR 2 billion including issue premiums. This increased the share capital of Dexia Crédit Local from EUR 500,513,102.75 to EUR 1,286,032,212.
(2) By resolution of the combined shareholders' meeting held on 16 December 2014, Dexia Crédit Local reduced its share capital by an amount of EUR 1,062,374,436 in order to clear the company's debts. This capital reduction was effected by reduction of the nominal value of shares. Dexia Crédit Local's share capital is now EUR 223,657,776 represented by 223,657,776 shares each with a nominal value of EUR 1.00.
(3) The extraordinary shareholders' meeting of Dexia Crédit Local held on 28 June 2016 resolved to proceed with a cash increase of the share capital social by an amount of EUR 250 million by the issue of new shares with maintenance of the shareholders' preferential subscription right. Dexia Crédit Local's share capital was thus increased from EUR 223,657,776 to EUR 279,213,332 by the issue of 55,555,556 new shares with a nominal value of EUR 1.00 issued at a unit price of EUR 4.50, or with an issue premium of EUR 3.50 per share.

Risk management

Introduction

In 2016, in an environment still marked by severe uncertainty, the Risk activity line continued the active management of the credit risk run by Dexia Crédit Local. It paid particular attention to certain counterparties and sectors, particularly including the renewable energy and banking sectors.

One of the events which marked the year was the conclusion of an agreement between the Austrian State and the creditors of Heta Asset Resolution AG. The implementation of this agreement enabled the Group to reverse the EUR 136 million provision set aside in 2015.

As a consequence, the cost of risk had a positive impact of EUR +138 million. Overall, the portfolio presents good credit quality, with 90% of Group exposures rated in the investment grade category.

In 2016, Dexia Crédit Local also continued its important work of assisting French local authorities to desensitize the outstanding of structured loans. This effort was reflected by a significant reduction of the amount of litigation with local authorities.

Finally, Dexia Crédit Local took part in the transparency exercise organised by the European Banking Authority (EBA), of which the elements and conclusions were published on 9 December 2016. This exercise aimed to provide detailed and harmonised information on the balance sheets and loan portfolios of the main European banks.

Governance

Dexia Crédit Local Group policy on risks is defined and supervised by the Board of Directors.

The role of the Risk activity line is to implement the Group's strategy on monitoring and managing risk and to put independent and integrated risk measures in place. The Risk activity line identifies and monitors the risks to which the Group is exposed. If necessary it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of provisions deemed necessary to cover the risks to which the Group is exposed.

In 2016, the Dexia Crédit Local Group developed the governance and operational organisation of the Risk activity line, to adapt it to its resolution management mandate.

Two new departments were created and report directly to the Chief Risk Officer:

- The activities of reporting and governance and risk systems management activities were grouped together in the same department, in order to harmonise the functions of production, operation and data analysis;
- A new department "Comprehensive risk assessment" was created.

Furthermore, the activities of "Risk Quantification & Pricing" and "Stress Tests" were grouped with the activities of model management, within the Credit Risk department, with the creation of a single department centralising all the model management functions, quantitative back-testing and Pillar 1 stress testing work. This new department coordinates the subjects of credit modelling (advanced models, provision calculations, cost of risk, risk-weighted assets and credit VaR forecasts) and enables better consistency to be achieved between hypotheses and the work carried out for such modelling.

Role of the Risk Committee, the Management Board and the Transaction Committee

The Risk Committee, created within the Dexia Board of Directors is responsible for monitoring aspects relating to risk strategy and level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.

The Management Board delegates its decision-taking powers in relation to operations giving rise to credit risks to a Transaction Committee. This committee includes the heads of the Assets, Funding and Markets, Finance, Risks and Secretariat General, Legal and Compliance activity lines. It can decide to submit larger credit files or those presenting a risk level considered sensitive to the Management Board, which remains the body taking the ultimate decision. For each file presented to the Transaction Committee, an independent analysis is performed, to reveal the main risk indicators, and a qualitative analysis of the transaction.

Depending on the nature of the portfolios or risks concerned, some of the powers of the Transaction Committee are delegated to the Assets and Risk activity lines, the task of which is manage Dexia Crédit Local assets over the period of the orderly resolution, whilst preserving and improving their value.

The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the Transaction Committee. It deals with the monitoring and operational management of Group risks under the supervision of those committees.

More detailed information on the Risk Committee, the Management Board and the Transaction Committee is provided in the chapter "Report of the Chairman of the Board of Directors" of this registration document.

Organisation of the Risk activity line

The Risk Management Executive Committee

The decision-taking body of the Risk activity line is its Executive Committee.
This committee consists of the head of Risks and the six heads of:
- The credit risk department,
- The market risk department,
- The operational risk department,
- The strategic risk and regulatory supervision department,
- The comprehensive risk assessment department,
- The governance, reporting and risk systems department.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.
The organisation and operation of the activity line also rely on certain committees, the prerogatives of which are governed by a system for the delegation of powers, defined in relation to the nature of the risks to which the Group is exposed.

Credit risk

Credit risk represents the potential loss, materialised by the reduction in value of an asset or by the payment default, that Dexia Crédit Local may suffer as the result of deterioration in the solvency of a counterparty.
The credit risk department defines the Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Dexia Crédit Local Group. It also determines the impairments and collective provisions presented quarterly when the accounts are drawn up.
Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:
- The **Watch-list Committee** supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
- The **Default Committee** screens and monitors counterparties in default by applying Group internal rules, in compliance with the regulatory framework;
- The **Rating Committee** ensures that internal rating processes are aligned with the established principles and that those processes are consistent across the Group's various entities.

Market risk

Market risk represents the Group's exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Crédit Local Group prepares its financial statements. The interest rate and foreign exchange risk of the positions within the banking portfolio are part of the transformation risk.
Market risk policy and management are in the hands of the Management Board. To facilitate operational management, a system of delegated authority has been put in place:
- The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
- The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

Under the aegis of the Management Board and specialist risk committees, the market risk department identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

Transformation risk

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio (as well as liquidity risk). Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies.
Liquidity risk measures Dexia Crédit Local's ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration of the Group's environment, on the basis of a range of stress scenarios.
Asset and liability management is supervised by the Dexia Crédit Local Management Board, which meets on a quarterly basis to determine the global risk framework, set limits, guarantee the consistency of strategy and delegate operational implementation to local ALM committees. The Management Board approves asset and liability management transactions, and centralises and coordinates the decision-taking process concerning liquidity matters. It is periodically informed of the Group's liquidity position and its evolution and its cover by short, medium and long-term resources. It ensures that liquidity targets are met and contributes to elaborating strategies for funding and asset deleveraging.
Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy team within the Finance activity line, of validating the models used to actually manage risk, and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, validates the risk management approach adopted by the Finance activity line and ensures that it complies with the regulatory framework in force.

Operational risk and IT systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.

The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the **Operational Risk Committee**. This committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on committees dedicated to activity continuity and IT systems security, which examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.

Operational risk, activity continuity and IT systems security management is coordinated by a central team within the Risk activity line supported by a network of correspondents within all subsidiaries and branches, as well as within the Group's various departments. Within each activity domain, an operational risk correspondent coordinates data collection and assesses risks, supported by the operational risk management function, ensuring good operational continuity management.

Risk Appetite Framework

The Risk Appetite Framework is a regulatory requirement which defines Dexia and Dexia Crédit Local's level of risk tolerance and falls within the implementation of the Group's strategy. It defines the Group's risk profile, qualifies the types of risk which Dexia and Dexia Crédit Local are inclined to hold, minimise, attenuate or transfer in order to achieve its strategic objectives and to protect the interests of the States guarantors and shareholders. The Risk Appetite Framework considers Dexia and Dexia Crédit Local's significant risks and relies on strategy and capital forecasts.

The Risk Appetite Framework was approved by the Risk Committee and by the Board of Directors of Dexia on 15 December 2016, on the opinion of the Management Board. It includes a declaration of risk appetite, qualitative and quantitative risk limits and an overview of the roles and responsibilities of those who supervise implementation and monitoring.

The Risk Appetite Framework is regularly monitored and subject to an annual review in order to integrate any new regulatory, strategic or operational development. A half-year consolidated schedule is presented by the Risk department to the Risk Committee and to the Board of Directors, with the aim of close and in-depth monitoring of the main risk indicators and informing the Dexia Group's decision-taking bodies.

Risk monitoring

Credit risk

Credit risk exposure

Dexia's credit risk exposure is expressed as Exposure at Default (EAD). It corresponds to the best estimate of credit risk exposure in the event of default. The definition of EAD used by Dexia is given in Note 7 in the Appendix to the consolidated financial statements.

As at 31 December 2016, Dexia Crédit Local's credit risk exposure was EUR 163.9 billion, compared with EUR 180.9 billion at the end of December 2015, a fall of 9%, associated with natural portfolio amortization as well as asset disposals and early redemptions.

Exposure was for EUR 77 billion in loans and EUR 74 billion in bonds.

Exposure is for the most part concentrated in the European Union (74%) and the United States (15%). Exposure was reduced in all countries in 2016.

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2015	31/12/2016
Italy	27,242	25,512
United Kingdom	25,804	25,447
France	26,544	25,413
United States	28,635	23,825
Germany	22,308	20,689
Spain	16,833	14,073
Japan	7,551	7,470
Portugal	4,149	3,868
Canada	2,716	2,654
Belgium	2,143	2,009
Central and Eastern Europe	2,895	1,843
Scandinavia	1,471	1,229
Austria	1,575	1,118
South-East Asia	828	607
Central and South America	552	490
Switzerland	520	399
Turkey	496	367
Hungary	946	275
Netherlands	342	155
Greece	149	128
Ireland	160	103
Luxembourg	58	61
Others	6,994	6,187
TOTAL	**180,912**	**163,923**

As at 31 December 2016 the majority of exposures remained concentrated on the local public sector[1] and sovereigns (70%), taking account of the historical activity of Dexia Crédit Local.

EXPOSURE BY TYPE OF COUNTERPARTY

(in EUR million)	31/12/2015 pro forma	31/12/2016
Local public sector	94,506	89,275
Sovereigns	29,513	25,461
Financial institutions	24,289	19,798
Project finance	14,562	13,355
Corporate	8,406	7,590
ABS/MBS	7,799	6,403
Monolines	1,837	2,040
TOTAL	**180,912**	**163,923**

The quality of the Dexia credit portfolio remained high, with 90% of exposures rated *investment grade* as at 31 December 2016.

Distribution by rating now takes account of the seniority of ratings – but this adjustment has a very minor impact on distribution by class.

(1) In order to achieve a consistency of internal reporting, changes have been made in the classification of exposures: two Italian funds previously classified as financial institutions have been reclassified in the category of Local Public Sector in view of their specific activity, in a total amount of EUR 105 million.

EXPOSURE BY RATING*

	31/12/2015 pro forma	31/12/2016
AAA	16.5%	18.2%
AA	22.1%	17.9%
A	21.6%	24.1%
BBB	27.8%	29.4%
Non-investment grade	10.7%	9.3%
D	1.1%	0.9%
No rating	0.2%	0.3%
TOTAL	**100%**	**100%**

** Internal rating system*

Particular attention is paid to the countries listed in the following table in view of the significant amounts of exposure or the degree of sensitivity. The main developments and significant facts for those sectors and countries in 2016 are presented in the following paragraphs.

SECTOR EXPOSURE TO CERTAIN COUNTRIES (AS AT 31 DECEMBER 2016)

(in EUR million)	Total	o/w local public sector	o/w project finance and corporate	o/w financial institutions	o/w ABS/ MBS	o/w sovereign exposures	o/w monolines
Italy	25,512	10,750	843	457	46	13,415	0
United Kingdom	25,447	11,952	9,620	1,842	1,574	63	397
France	25,413	15,585	3,750	3,417	0	2,661	0
United States	23,825	12,448	806	3,194	4,257	1,477	1,643
Germany	20,689	17,537	227	2,510	0	415	0
Spain	14,073	6,769	2,003	4,360	376	565	0
Japan	7,470	5,475	0	1150	0	845	0
Portugal	3,868	1,794	115	16	49	1,894	0
Poland	1,161	2	0	0	0	1,159	0
Turkey	367	4	3	360	0	0	0
Hungary	275	2	0	0	0	273	0
Greece	128	50	78	0	0	0	0
Ireland	103	0	8	40	56	0	0

Dexia Crédit Local Group commitments on sovereigns

Dexia Crédit Local Group outstanding on sovereigns is concentrated essentially on Italy and to a lesser extent on France, Portugal, the United States and Poland.

During the year 2016, the recovery of growth continued in the majority of European countries as well as in the United States, despite uncertainties in relation to the robustness of the Chinese economy. In Europe however, the economic situation remains fragile and contrasting from one country to another.

Furthermore, the political context is marked by the vote in favour of the United Kingdom leaving the European Union and the rejection of the constitutional reform promoted by Prime Minister Matteo Renzi in Italy. The results of these consultations give rise to uncertainties and instability. The political agenda will remain heavy in Europe in 2017, with the holding of the presidential election in France and the regional elections in Germany.

In the United States, the election of Donald Trump as President could also cause problems, both in foreign policy and the economic choices and political orientations which might be followed, whilst the Federal Reserve has begun a move to increase interest rates and to tighten monetary policy.

In Japan, despite the fiscal and monetary measures implemented, inflation and growth remain low. The prospects of any noteworthy improvement in the near future seem limited.

Dexia Crédit Local Group commitments to the local public sector

Considering Dexia's historical activity as a lender to local authorities, the local public sector represents a significant proportion of Dexia Crédit Local's outstanding, principally concentrated in the countries of Western Europe (France, Italy, Germany, Spain, the United Kingdom) and in North America.

France

General context

The quality of the Group's portfolio, consisting mainly of outstanding on local authorities and social housing, remains very good, with a very limited number of payment incidents observed.

Update on structured loans

In 2016, Dexia Crédit Local continued its voluntary action to assist French local authorities, in order to reduce its outstanding on sensitive structured loans. In line with the policy implemented since 2013, the Group has offered all of its customers opportunities to switch definitively to a fixed rate.

The phase of subscription to aid provided by the support fund for the local authority and hospital sector to those which had subscribed to sensitive structured loans ended in July 2016. All the borrowers which held off-charter contracts(1) on the balance sheet of Dexia Crédit Local accepted the assistance offer and signed a transactional agreement with the Group,

(1) By reference to the Gissler charter: classification of types of contracts by their risk level as established several years ago on the request of the French government.

sent to the State, ending any litigation now or in the future. These agreements cover all the loans to public customers the maturities of which had deteriorated.
At the same time, a large number of loans not covered by the support fund have been desensitised.
As a consequence, the outstanding of sensitive structured loans on the Dexia Crédit Local balance sheet was EUR 651 million as at 31 December 2016, down by 33% on the end of 2015 and 67% on May 2012.
The number of cases in which Dexia Crédit Local is involved has also fallen sharply, from 147 at the end of 2015 to 51 as at 31 December 2016.

More detailed information on the evolution of litigation associated with Dexia Crédit Local's sensitive structured loans is provided in the section "Litigation" at the end of this chapter.

Spain

The State gave huge support to the regions and municipalities through several support funds. The aim of these funds was not only to assist beneficiaries to honour their commitments with their banks and their suppliers, via the grant of financial facilities, but also to force them to improve their management with the introduction of adjustment and recovery plans. These mechanisms were completed by the adoption of principles of financial caution which imposed very precise rules on authorities regarding the margins on new funding or restructuring operations. The use of derivatives is now tightly controlled and certain covenants are restricted or even forbidden. The measures of support to authorities are bearing fruit, enabling their financial situation to be improved. Furthermore, there has been no payment default by the regions and the 2016 financial year should, for the regions, close with a deficit of -0.8% of GDP, slightly above the target of -0.7%, but better than the result in 2015 (-1.74%). Nonetheless the indebtedness remains severe.

United States

The financial situation of the Commonwealth of Puerto Rico continued to deteriorate. As a consequence, in May 2016 the government declared a state of emergency and a moratorium on its own debt as well as some of the debt of its public enterprises until February 2017 at a minimum. As a result, arrears were observed on the general debt of the Commonwealth and on the debt of certain of its satellites.
Furthermore, within the framework of the PROMESA Law, aimed at the economic revival of the island, a federal supervisory board appointed in 2016 is responsible for balancing the budgets, authorising the issue of debt and restructuring.
The Dexia Crédit Local Group's exposure was limited to the public enterprises linked to the Commonwealth of Puerto Rico and was EUR 431 million as at 31 December 2016, of which 95% is covered by good quality credit enhancement. These exposures have not posted any delay in payment.
The provisions set aside by Dexia Crédit Local on Puerto Rico and its public enterprises amounted to EUR 43 million (USD 46 million) as at 31 December 2016. They cover outstanding without good quality credit enhancement and the possibility of accelerating payments in the event of a guarantee call, which would generate costs for unwinding hedge instruments.
Dexia Crédit Local also paid particular attention to cases in financial difficulties, in particular including the Chicago Board of Education (CBOE), in view of a very high debt level and an under-financing of pension funds, amplified by the ongoing fall of levels of student registrations. The credit profile of the CBOE was not improved in 2016 in particular considering increased liquidity constraints and increasingly costly refinancing conditions. Dexia Crédit Local was exposed to the CBOE in an amount of EUR 489 million at the end of December 2016.

Dexia Crédit Local Group commitments on project finance and corporates

The project finance and corporate loans portfolio amounted to EUR 20.9 billion as at 31 December 2016, down 9% on the end of 2015. Beyond natural amortisations and early redemptions, this portfolio contracted on the one hand under the effect of the weakening pound sterling since the British vote in favour leaving the European Union (-14% in 2016), which reduces the counter-value in euro of British exposures, and on the other hand following several opportunistic sales of the bonds of major French and Italian corporates.
This portfolio consists 64% of project finance[1], the balance being in finance to large corporates, such as financing for acquisitions, commercial transactions or corporate bonds. Dexia Crédit Local is following a policy of disengagement vis-à-vis its counterparties.
Certain projects are monitored very carefully. In particular, changes to the Spanish regulatory framework concerning renewable energies adopted on 16 June 2014, providing for the revision of tariffs for the purchase of electricity, an unfavourable impact on a part of the portfolio of renewables projects in Spain, mainly photovoltaic projects. Management of the consequences of those regulatory changes continues. Several projects have already been restructured and negotiations are in progress on others. Considering this situation, Dexia Crédit Local set aside specific provisions on certain projects, leading at the same time to a reduction of the sector provision set aside in 2014 to cover this risk.
The portfolio is of good quality (73% of the project finance portfolio and 95% of the corporate portfolio are rated investment grade)
As at 31 December 2016, the British project finance and corporate portfolio reached EUR 9.6 billion (46% of the portfolio), composed 56% of corporates, essentially Utilities, and 44% of project finance, mostly within the framework of public private partnerships (PPP). This portfolio is of extremely good quality, with 97% of the exposure rated investment grade. Considering the protective regulatory framework from which Utilities benefit and the structuring of PPP, no significant impact on this portfolio arose following the vote in favour of the United Kingdom leaving the European Union.
The Group's direct exposure to the oil sector, weakened by the fall of prices, amounted to EUR 265 million. It mainly involves project finance and more marginally first-class corporates. Some individual files have been provisioned.

Dexia Crédit Local Group commitments on ABS

As at 31 December 2016, Dexia's ABS portfolio amounted to EUR 6.2 billion, down EUR 1.2 billion on the end of 2015, due to the redemption and the sale of several positions.
This portfolio consists of EUR 4 billion in student loans, guaranteed by the US Federal State, which present a rather long amortisation profile and a limited expected loss guarantee.

(1) Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via sureties on assets and contracts or a limitation of dividends.

The balance is principally in residential mortgage backed securities (RMBS), representing an amount of EUR 0.5 billion, of which EUR 0.3 billion in Spain.
The quality of the ABS portfolio remains stable overall, with 97% of the portfolio rated investment grade at the end of December 2016, almost all of the tranches in which Dexia Crédit Local invested being senior level.

Dexia Crédit Local Group commitments on financial institutions

Dexia Crédit Local commitments on financial institutions amounted to EUR 19.8 billion as at 31 December 2016, down EUR 4.6 billion since December 2015.
The commitments consist of 70% bonds, covered bonds and repo operations with financial institutions. The balance consists of exposures associated with loans to financial institutions and derivatives.
Dexia Crédit Local exposures are concentrated 16% in the United States and 72% in Europe, principally in Spain (22%), France (17%), Germany (13%) and the United Kingdom (9%).
The portfolio's credit quality remained stable overall in 2016.
The year 2016 saw the conclusion of an agreement between the Austrian State and the creditors of Heta Asset Resolution AG. To recall, in 2015, the Austrian financial markets supervisory authority adopted a provisional moratorium on a substantial portion of the debt (capital and interest) of Heta Asset Resolution AG. Furthermore, the debt had been partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia Crédit Local had booked an impairment of EUR 197 million, corresponding to 44% of its exposure of EUR 395 million to Heta Asset Resolution AG and 5% of that amount to cover its exposure to associated derivatives.
After a long period of discussions between the Republic of Austria and the pool of creditors of Heta Asset Resolution AG, around Dexia Kommunalbank Deutschland, the parties agreed heads of agreement on 18 May 2016. These relied on the principle of an exchange of securities issued by Heta Asset Resolution AG against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia through a specific vehicle and benefiting from the explicit guarantee of the Republic of Austria.
On 4 October 2016, the Austrian Minister of Finance announced that a majority of the creditors had accepted the proposed agreement, enabling it to be implemented. The exchange of securities took place during the month of October. Dexia Crédit Local then sold the securities received on the market.
The positive net impact of the implementation of the agreement, booked in the third quarter, corresponding to a reversal of the impairments on the basis of the conditions provided in the exchange of securities, is EUR 136 million in cost of risk, to which is added EUR 3 million in net banking income. The gain from the sale, in a not insignificant amount, was booked in the fourth quarter 2016. This active management enabled the impact to be reduced from 50% to 10%.
Dexia Crédit Local no longer has any exposure to Heta Asset Resolution AG.
Despite an increase in the solvency levels of the European banking sector, the situation of certain European banks remains of concern. In particular, the weakness of certain Italian banks, confirmed by the results of the EBA stress tests published on 29 July 2016 and again accentuated by the rejection of constitutional reform in the referendum on 4 December 2016, is a matter for attention. The Group's exposure to Italian banks was EUR 218 million. It relates for the most part to banks with good credit quality. The exposure to banks rated non-investment grade was in an amount of EUR 1 million.

Dexia Crédit Local Group commitments on monolines

Dexia Crédit Local has indirect exposure to monolines in the form of financial guarantees that insure the timely payment of principal and interest due on certain bonds and loans. Actual claims against monoline insurers only become due if actual defaults occur in the underlying assets.
As at 31 December 2016, Dexia Crédit Local's portfolio included EUR 17.8 billion of assets insured by monolines, of which, 75% was attributable to insurers that were rated investment grade by two or more external rating agencies. All but two (FGIC and Ambac's Segregated Account) continue to pay all claims on time and in-full.

Impairment on counterparty risk – Asset quality

ASSET QUALITY

(in EUR million)	31/12/2015	31/12/2016
Impaired assets	1,530	1,062
Specific impairments	554	319
Coverage ratio(1)	36.2%	30.1%
Collective provisions	417	413

(1) Ratio between specific impairments and impaired assets

The year 2016 was marked by a sharp fall of the stock of impaired assets (by EUR -468 million), amounting to EUR 1,062 million as at 31 December 2016, as well as a fall of EUR -235 million of specific impairments allocated, amounting to EUR 319 million.
This clear fall of impaired assets and specific impairments is essentially explained by the disposal of the securities of Heta Asset Resolution AG during the second half-year 2016.
Furthermore, the restructuring of several impaired assets enabled provisions on those exposures to be reversed.
As a consequence, the coverage ratio was 30.1% as at 31 December 2016.
In addition to specific impairments, Dexia Crédit Local has collective (statistical or sector) provisions the total amount of which was EUR 413 million as at 31 December 2016, against EUR 417 million as at 31 December 2015.
To facilitate monitoring and comparison between the various European banks, the European Banking Authority harmonised the definition of Non-Performing Exposure (NPE) and Forbearance.
Non-performing exposure includes outstanding unpaid for more than 90 days for which the Group thinks that the counterparty is unable to repay without the implementation of guarantees. The Dexia Crédit Local Group has identified exposures corresponding to the said EBA definition. As at 31 December 2016 outstanding on non-performing exposures was EUR 2.4 billion, corresponding to 110 counterparties.
The definition of forbearance groups together facilities granted by banks to counterparties experiencing or about to experience financial difficulties in dealing with their commitments (facilities which banks would not otherwise have granted). Forbearance is applied on healthy or safe assets or on non-performing assets. As at 31 December 2016, 53 counterparties were the object of forbearance, in an outstanding amount of EUR 1 billion.

Market risk

Risk measurement

The Dexia Crédit Local Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

• Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia Crédit Local uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

– Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors.

– Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach whose distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

• Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The various assumptions underlying stress test scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee.

Exposure to market risk

The Dexia Crédit Local trading portfolio is composed of two groups of activity:

• transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;

• transactions intended to hedge risks arising from disinvestments and sales of assets within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

• interest rate risk, in particular on the euro zone and the dollar zone,

• cross currency basis swap risk,

• basis risk BOR-OIS.

Value adjustments (CVA, DVA, FVA) and their variation are not included in the VaR model but are included in stress scenarios.

Value at Risk (VaR)

The detail of the VaR from the market activities of the trading portfolios is presented in the following table. At the end of December 2016, total consumption in VaR was EUR 8.2 million, against EUR 13.7 million at the end of 2015.

VALUE AT RISK FROM THE MARKET ACTIVITIES OF THE TRADING PORTFOLIOS

(in EUR million)	2015				2016			
VaR (10 days, 99%)	Interest and FX (Banking and Trading)	Spread (Trading)	Other Risks	Total	Interest and FX (Banking and Trading)	Spread (Trading)	Other Risks	Total
Average	9.6	4.6	0.2	14.4	6	2.8	0.2	9
End of period	10.3	3.1	0.2	13.7	4	4.1	0.2	8.2
Maximum	11.6	5.5	0.3	17	10.4	4.1	0.2	14
Minimum	6.9	3	0.2	12.4	2.4	2.3	0.2	5.1

Sensitivity of portfolios classified as “available for sale” to the evolution of credit spreads

The sensitivity of the AFS reserve for available-for-sale portfolios to an increase in credit spreads is closely monitored. At the end of 2016, this sensitivity amounted to EUR -13 million for a one basis point increase in credit spreads. AFS sensitivity is down by EUR 5 million following the reclassification of EUR 1.5 billion of sovereign securities in the category “Financial assets held to maturity” at the end of 2016.

Sensitivity to interest rate fluctuations is extremely limited, as interest rate risk is hedged.

Transformation risk

Dexia Crédit Local’s asset and liability management (ALM) policy aims to reduce liquidity risk as far as possible and limit exposure to interest rate and foreign exchange risk.

Management of interest rate and exchange rate risk

Measurement of interest rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% shift on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Crédit Local Group’s structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia Crédit Local’s assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR +8.8 million as at 31 December 2016, compared with EUR +2.2 million as at 31 December 2015. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

(in EUR million)	2015	2016
Sensitivity	+2.2	+8.8
Limit	+/-80	+/-80

Measurement of foreign exchange risk

With regard to foreign exchange, the Management Board decides on the policy to hedge foreign exchange risk generated by the existence of assets, liabilities, income and expenditure in currencies. Also subject to regular monitoring:

- The structural risks associated with the funding of holdings in foreign currencies;
- Elements liable to increase the volatility of the solvency ratios of the Group or its subsidiaries and branches.

Structural exchange positions are subject to strict limits below which a systematic hedge policy is applied.

Management of liquidity risk

Dexia Crédit Local's policy on the management of liquidity risk

Dexia Crédit Local's main objective is to manage the liquidity risk in euros and in foreign currencies for the Group, as well as to monitor the cost of funding so as to minimise volatility in the Group's results.

The liquidity management process aims to optimise the coverage of the Group's funding requirements taking into account the constraints to which it is exposed. Funding requirements are assessed prudently, taking existing transactions into account as well as planned on- and off-balance-sheet forecasts.

The Group's liquidity reserves consist of assets eligible for the central bank refinancing facilities to which Dexia Crédit Local has access.

To manage the Group's liquidity situation, the Management Board regularly monitors the conditions for funding transactions on the market segments on which Dexia Crédit Local operates. It also guarantees proper execution of the funding programmes put in place. To that end, a specific and regular mode of information has been introduced:

- Daily and weekly reports are provided to members of the Management Board, the State guarantors and shareholders and the supervisory authorities. This information is also used by all parties involved in managing the Dexia Group's liquidity position, in particular the Finance and Risk teams in charge of these topics, and the Funding and Markets activity line;
- The 12-month funding plan is sent monthly to the State guarantors and shareholders, central banks and supervisory authorities;
- Fortnightly/Bimonthly conference calls are held with the supervisory authorities and (European, French and Belgian) central banks.

Liquidity risk measurement

In 2015, the European Central Bank (ECB) decided to apply a tailored, pragmatic and proportionate prudential supervisory approach to Dexia Crédit Local. This approach was extended in 2016.

For instance, this approach authorises the proportionate use of supervisory powers in view of the constraints of compliance with the liquidity ratios set forth by the CRR[1]. It relies in particular on an enhanced reporting of the liquidity position, including weekly liquidity projections over four weeks and monthly funding plans over twelve months, based on a central scenario and stress scenarios. Furthermore, Dexia Crédit Local sends monthly *Liquidity Coverage Ratio* (LCR)[2] projections over twelve months. Finally, close monitoring of the diversity of funding sources and the concentration of cash outflows completes the mechanism for measuring liquidity risk.

As at 31 December 2016, the Dexia Crédit Local Group LCR was 80%. However, despite the very significant progress made by the Group in terms of reducing its liquidity risk, the financial characteristics of Dexia Crédit Local since its entry into resolution do not allow it to ensure compliance with certain regulatory ratios over the term of the orderly resolution plan approved by the European Commission.

The proportionate use of supervisory powers by the ECB notably assumes that Dexia Crédit Local's situation does not deteriorate significantly. A reversal of this approach may have a material adverse effect on the activity (including the credit institution status) of Dexia Crédit Local and, consequently, on its financial situation.

Operational risk and IT systems security

Dexia Crédit Local's policy for the management of operational risk and IT systems security

Dexia Crédit Local's policy regarding operational risk management consists of regularly identifying and assessing the various risks and implementing corrective actions or improvements to reduce the most significant operational risks. This system is supplemented by a prevention policy in particular covering information security, business continuity and, when necessary, the transfer of certain risks via insurance.

Risk measurement and management

Operational risk management has been identified as one of the pillars of Dexia Crédit Local's strategy within the context of its orderly resolution.

This risk is monitored within the framework of the standard approach determined by the Basel regulatory methodology. Under this methodology, information relating to the operational risk must be transferred to the managers in charge of monitoring this risk, and the tasks identified as critical must be monitored.

The operational risk management system relies on the following components.

- Operational risk database: the systematic capture and monitoring of operational incidents is one of the most important requirements of the Basel Committee. Fulfilling its regulatory obligations, Dexia Crédit Local has put a system in place to list operational incidents and to gather specific data. The information gathered enables it to improve the quality of its internal control system.

Over the last three years, almost 99% of losses under the Basel definition originated from the category "Execution, Deliveries and Process Management".

The other categories ("External Fraud" and "Failure of Systems or IT Infrastructure") represent 12% of the total number of incidents but less than 1% of total losses.

The principal incidents are subject to corrective actions approved by the management bodies.

(1) Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

(2) LCR measures the coverage of liquidity requirements at 30 days in a stressed environment, by a volume of liquid assets. It replaces Belgian and French regulatory liquidity ratios.

• Risk self-assessment and control: as well as building a history of losses, Dexia Crédit Local's exposure to key risks is determined via an annual risk mapping exercise. All Dexia Crédit Local Group entities conduct risk self-assessment exercises that take into account existing controls, thus providing senior management with an overall view of most areas of risk within the Group's various entities and businesses. The overall mapping is presented each year to the Management Board. Actions to limit risk may be defined where applicable.
• Definition and monitoring of action plans: actions are defined in response to major incidents, deficient controls or important risks identified. Regular monitoring is carried out by the operational risk management function. This process allows the internal control system to be constantly improved and risks to be reduced appropriately over time.
• Key Risk Indicators (KRI): KRI have been developed and enable the Operational Risk Committee to monitor the evolution of the principal risks identified in the operational risk mapping.
• Management of information security and business continuity: the information security policy and associated instructions, standards and practices are intended to ensure that Dexia Crédit Local's information assets are secure. All activities take place in a secure environment. The various activity lines establish impact analyses for vital activities in the case of disaster or interruption. They define plans for the recovery. Updating of activity continuity procedures takes place at least once a year. On the basis of regular reports, the Management Board signs off recovery strategies, residual risks and action plans with the aim of delivering continuous improvement.
Dexia Crédit Local applies the Basel standard approach to calculate regulatory capital for operational risk management.

Management of operational risk during the period of resolution

In 2016, the Dexia Crédit Local Group continued to adjust its structure and its operational processes in line with its orderly resolution plan. This transitional phase is by nature liable to give rise to operational risks, particularly as a result of factors such as the departure of key staff members or process changes when applications need to be replaced or duplicated. The key components of the management system described above continue to be applied during this period. Specifically with regard to self-assessment of risks and controls, Dexia Crédit Local was called upon to assess the risk of discontinuity associated with the factors referred to above.

Stress tests

Dexia Crédit Local performs stress tests adopting a transversal and integrated approach to the Group's risk management process taking account of the orderly resolution plan. The aim of the stress tests is to identify possible vulnerabilities and simultaneously, in an adverse shock situation, to assess the possible increase of risk-weighted assets, additional liquidity or capital requirements.
In 2016, Dexia performed a series of stress tests (sensitivity analysis, scenario analysis) which rely on macroeconomic scenarios simulating crisis situations. By way of illustration, the possible impacts of an exit of the United Kingdom from the European Union and those associated with a stress on Italian banks, were assessed, approved internally and sent to the supervisory authorities. In accordance with the capital adequacy requirements, these stress tests are performed within the same operational framework as for the Pillar 2 process: they are performed as required by the regulations with the ICAAP and ILAAP processes.
In addition to the market risk and liquidity stress tests performed regularly and meeting regulatory requirements, Dexia Crédit Local performed stress tests covering the majority of the credit portfolios, particularly within the framework of Pillar 1 of the Basel regulations. In this regard, credit exposures covered by the internal rating systems are subject to tests for sensitivity and scenarios of the unfavourable evolution of macroeconomic variables.

Litigation

Like many financial institutions, Dexia is subject to a number of regulatory investigations and is named as a defendant in a number of lawsuits, including class action suits in the United States and Israel. Moreover, the reduction of the Group's scope, along with some measures implemented within the framework of Dexia's resolution, has raised questions from some of its stakeholders or counterparties. Such litigation is referred to below. Unless otherwise indicated, the status of such disputes and investigations is summarised below as at 31 December 2016 and based on information available to Dexia on that date.
On the basis of the information available to Dexia on that date, other disputes and regulatory investigations in which an entity of the Dexia Group is named as a defendant and regulatory investigations impacting Group entities are either not expected to have a material impact on the Group's financial position or it is too early accurately to assess whether they may have such an impact.
The consequences, as assessed by Dexia in accordance with the information available to it on the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements. Subject to the general terms and conditions of professional indemnity and Directors' liability insurance policies taken out by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting such risks, may be offset by any payments that Dexia may receive under the terms of those policies.
In addition, the Group has set aside provisions in respect of certain of these risks. Due to the nature of these proceedings, any indication as to whether provisions have been set aside in connection with them or their subject matter and, if so, the amount of any such provisions, could seriously prejudice Dexia's legal position or defence in connection with those legal actions or any related proceeding.

Financial Security Assurance

Financial Security Assurance Holdings Ltd (now Assured Guaranty Municipal Holdings Inc. and hereinafter referred to as "FSA Holdings") and its subsidiary, Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp. and hereinafter referred to as "AGM"), both former subsidiaries of the Dexia Group, together with many other banks, insurance companies and brokerage firms, were investigated in the United States by the Antitrust Division of the US Department of Justice (DoJ), the US tax authorities and/or the US Securities and Exchange Commission (SEC) on the grounds that allegedly they had breached laws and regulations in connection with bidding on and entering into municipal derivatives transactions, including guaranteed investment contracts (GICs[1]), with municipal bond issuers. A number of US states also initiated similar investigations.

In addition to the government investigations described above, a large number of banks, insurance companies and brokerage firms, including in some cases FSA Holdings, Dexia and/or AGM, were named as defendants in various civil proceedings relating to municipal GICs and other transactions entered into with local authorities. These civil claims are based on alleged breaches of antitrust laws and other laws and regulations. Almost all of these ongoing civil proceedings were consolidated for pre-trial purposes before the US District Court for the Southern District of New York.

In addition to its direct exposure as defendant in some of these legal actions, under the terms of the sale of FSA Holdings and AGM to Assured Guaranty Ltd, Dexia retained the Financial Products business and agreed to indemnify AGM and Assured Guaranty Ltd for any losses related to this business that these companies may incur as a result of the investigations and lawsuits referred to above.

The SEC concluded its investigation into FSA Holdings and found that there were no grounds for it to continue its investigations into FSA Holdings.

Alongside these developments, in 2010 the DoJ indicted the former AGM employee Steven Goldberg, together with two former colleagues of Goldberg at his previous employer, in the bid-rigging case. The DoJ did not charge either AGM or any other entity in the Dexia Financial Products Group in connection with its indictment of Goldberg. After being found guilty of fraud in the first instance, Goldberg was freed when the US appellate court overturned the verdict in a final decision.

During 2016, Dexia substantially resolved all of the civil actions brought against FSA Holdings, AGM or Dexia entities. Settlement agreements were executed with the relevant plaintiffs. One civil action remains outstanding. The main class action was also settled during 2016. No Dexia or FSA entities were defendants in that class action.

In spite of the above developments, at present Dexia is unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia Crediop

Like other Italian banks, Dexia Crediop is involved in legal proceedings in Italy and in the UK regarding (i) hedging transactions (which required recourse to derivative instruments such as swaps) entered into in connection with debt restructuring and/or funding transactions with a dozen Italian regions, cities and provinces, as well as (ii) other non-hedging type transactions.

(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and lawsuits were issued by subsidiaries of FSA Holdings in exchange for funds invested by US municipalities, or in favour of issuers of securitised debt. GICs, the terms and repayment conditions of which vary, entitle their holders to receive interest at a guaranteed fixed or floating rate, as well as recouping their initial investment. The payment of principal and interest on the GICs was guaranteed by AGM and remains so subsequent to that company's acquisition by Assured Guaranty Ltd.

In relation to the hedging transactions

In December 2010, the Region of Lazio brought a civil action before the Civil Court in Rome. Originally, 11 banks were summoned. The Region of Lazio requested the payment, by the banks, of an amount equal to the alleged hidden costs of the swap transactions that had been implemented (roughly EUR 8.5 million as far as Dexia Crediop was concerned). As a result of the Region's refusal to supply Dexia Crediop with a copy of the settlement agreements entered into by the Region with other banks involved in the same civil lawsuit, on 22 March 2016 Dexia Crediop obtained an order by the Administrative Court of Lazio requiring the Region to supply Dexia Crediop with said settlement agreements.

In July 2015, Dexia Crediop had also filed a jurisdiction challenge with the Italian Supreme Court seeking a declaration that jurisdiction over the litigation belongs to the English Courts. On 19 January 2017, the Supreme Court declared that the Civil Court in Rome is the competent court to rule on the claim for pre-contractual liability brought by the Region.

On 17 June 2016, the High Court in London issued a default judgment in favour of Dexia Crediop in the civil lawsuit with the Province of Milan. The Court confirmed that the swap agreements were legally valid and binding *ab origine* and ordered Milan to pay the legal costs incurred by Dexia Crediop.

On 10 November 2016, the High Court in London issued a second judgment in the Prato case on the issues which had not yet been decided in its first judgment on 25 June 2015, in which it had declared the swaps concluded with Prato to be null and void as found to be in breach of the Italian Financial Consolidated Text (Testo Unico Finanza "TUF"), on door-to-door selling. In the second judgment, the Court declared the swaps also to be null and void for two further reasons: (i) the failure expressly to contemplate the withdrawal period provided for by the section of TUF on distance marketing techniques and (ii) the failure to comply with certain other provisions of TUF and of Consob Regulation No. 1152 of 1998 containing other requirements with which the contracts should have complied. Appeal proceedings have been initiated and should be heard in the first half of 2017.

The criminal proceedings before the Criminal Court in Prato are ongoing. On 30 January 2017, the Public Prosecutor made his final statement requesting Dexia Crediop and its employee to be sentenced for alleged fraud. Further hearings are scheduled to take place in the first half of 2017.

On 21 December 2016, the High Court in London dismissed the jurisdiction challenge brought by the Province of Brescia against the claim filed by Dexia Crediop on 21 Apri 2016 and ordered Brescia to pay the legal costs incurred by Dexia Crediop. The Court also confirmed the legal calendar for the civil lawsuit.

On 18 March 2016, Brescia initiated another lawsuit before the Civil Court in Rome in relation to the advisory agreement concluded with Dexia Crediop. This proceeding is also ongoing.

On 11 January 2017, the Civil Court in Messina declared that it had no jurisdiction regarding the claim filed by the City of Messina, thereby referring to the decision of the Italian Supreme Court of 23 of October 2014, in which the Supreme Court declined the jurisdiction of the Italian courts in favour of the English courts, as had also already been decided by the Administrative Court in Sicily on 10 July 2015. Accordingly, the claim brought by Messina was dismissed.

To date, the Public Prosecutor of the Criminal Court in Messina has not taken any further steps in his criminal investigation for alleged fraud.

In relation to the non-hedging type transactions

On 5 April 2016, Dexia Crediop was summoned before the Civil Court in Rome by PICFIC (Provincia Italiana della Congregazione dei Figli dell'Immacolata Concezione), currently in extraordinary administration, seeking for a declaration that the assignments of receivables entered into with Dexia Crediop in 2012 are null and void (claw-back action). The lawsuit is ongoing.
The lawsuit brought by Dexia Crediop to obtain payment of part of the assigned receivables that remain unpaid is also still pending before the Court of Appeal.
Dexia Crediop is involved in litigation concerning the Istituto per il Credito Sportivo ("ICS") in which Dexia Crediop is a quota holder, together with other Italian financial institutions. The extraordinary administrators of ICS challenged the nature of the subsidies granted to ICS, which were reclassified as equity. The quota holdings in ICS and the dividend distributions since 2005 were challenged in court (civil and administrative proceedings) as a result of the self-redress resolutions to annul ICS's by-laws and the dividend distributions. In September 2015, the Council of State rejected the appeal of Dexia Crediop and the other ICS' quota holders by confirming the judgment of the Administrative Court in Lazio and the annulment of the 2005 ICS's by-laws, stating *inter alia* that the decisions on dividend distributions are subject to the jurisdiction of the civil courts. Dexia Crediop decided not to appeal the decision. The civil court proceedings relating to the dividends distributions and the new ICS' by-laws are ongoing.
On 18 July 2016, Dexia Crediop was summoned before the Civil Court in Rome by LIRI (Livorno Reti e Impianti S.p.A.), currently in voluntary winding-up, in relation to a loan agreement entered into in 2003 with Dexia Crediop and another bank (50% each). LIRI is challenging the loan by alleging, *inter alia*, that the loan embeds a derivative agreement including hidden costs. The lawsuit is ongoing.
At present, Dexia Crediop is unable reasonably to predict the duration and outcome of these proceedings, and their potential financial repercussions.

Structured loans litigation

Dexia Crédit Local (DCL) is involved in a number of cases brought by local authorities to whom it had granted structured loans. As at 31 December 2016, 51 clients had issued summonses against DCL in connection with structured loans (compared to 147 clients at the end of 2015), of which 37 concern structured loans held by the Société Française de Financement Local (SFIL), parent company of the Caisse Française de Financement Local (CAFFIL), 11 concern structured loans held by DCL and 3 concern both institutions. It must be noted that DCL did not give any representation or warranties on the loans of CAFFIL at the time of the sale of SFIL in January 2013. Nevertheless, DCL, as legal representative of CAFFIL until the time of the sale, remains responsible for any damages granted to a borrower solely in case of non-fulfilment of its regulatory obligations relating to the marketing by DCL of the structured loans held by CAFFIL at the time of the sale.
The support fund created by article 92-I of the 2014 Finance Act in favour of local authorities became operational during the 4th quarter of 2015 and its activity reached an end in September 2016. The help of this support fund, together with the support fund dedicated to public hospitals, enabled a significant number of litigations to be closed definitively by settlement.
For the ongoing litigation, four important rulings were passed by the Court of Appeal in Versailles on 21 September 2016. In these decisions, the Court dismissed the four borrowers' claims and recognized the validity of the contracts, the validity of the borrower's obligations and DCL's compliance with its duty of information. As these decisions were pronounced by a special chamber of the Court of Appeal, they are considered as "in principle decisions" which could not be easily contested.
Dexia Kommunalbank Deutschland (DKD), a subsidiary of DCL, was also summonsed in a small number of disputes relating to structured loans. In 2016, DKD obtained favourable decisions at first instance in some of these proceedings.
In spite of the foregoing developments, at present DCL and DKD are unable reasonably to predict the duration or outcome of the remaining investigations and legal proceedings in progress, or their potential financial repercussions.

Dexia Israel

In May 2002, a group of minority shareholders brought a class action against Dexia Crédit Local (DCL) concerning its acquisition of shares held by the State of Israel and certain banks when Dexia Israel (DIL) was privatised.
After years of proceedings, the parties reached an agreement on 14 December 2014 to settle this dispute (together with a derivative claim filed in July 2012 by the same minority shareholders, to claim reimbursement of dividends allegedly overpaid by DIL to DCL) and the Central District Court in Tel Aviv approved the settlement agreement on 13 May 2015.
In December 2011, individual shareholders filed another class action against DCL, DIL and the Union of Local Authorities in Israel (ULAI). This action was based, *inter alia*, on an alleged failure to complete the process of equalising the rights attached to shares in DIL. On 7 October 2014, a new derivative action was brought by certain shareholders (including one of the instigators of the class action of December 2011) against DCL, DIL's CEO and 13 of DIL's current and former directors. The claim related to an alleged boycott of local authorities by DIL in the production of loans in the provinces of Judea and Samaria.
On 15 January 2016, a settlement was agreed by the parties in those two cases, allowing for a waiver of their claims by the plaintiffs. In June 2016 and January 2017, the Tel Aviv Court approved the terms of the settlement and the consideration due to the plaintiffs and their counsels. The approval by the Court allowed Dexia Israel, at the end of January 2017, to initiate an equalization process regarding its categories of shares and pay a dividend to all shareholders.

Information on capital and liquidity

The Dexia Group's three strategic objectives are to protect the Group's capital base, ensure continued access to liquidity for the duration of its resolution process and manage its operational risks.

Share capital

Share capital and number of shares

As at 31 December 2016, the share capital of Dexia Crédit Local amounted to EUR 279,213,332. It is divided into 279,213,332 shares with a nominal value of EUR 1.00. Each share gives a right to one vote and none is subject to pledge. To date, there is no other security giving access to the capital of Dexia Crédit Local.

Shareholding structure

Dexia Crédit Local's share capital is held directly and almost exclusively by Dexia. the Chief Executive Officer holds one registered share in the company. Indirectly, through Dexia, Dexia Crédit Local's capital is held 50.02% by the Federal Holding and Investment Company (FHIC) acting under delegation on behalf of the Belgian government and 44.40% by the French government.

As at 31 December	2012	2013	2014	2015	2016
Capital (in EUR)	1,286,032,212	1,286,032,212	223,657,776	223,657,776	279,213,332
Number of shares	223,657,776	223,657,776	223,657,776	223,657,776	279,213,332
Dexia	223,657,766 shares	223,657,763 shares	223,657,764 shares	223,657,770 shares	279,213,332 shares
Individual investors (directors)	10 shares	13 shares	12 shares	6 shares	1 share

Dividends paid during the past five years

No dividends have been paid in respect of the past five years and the Board of Directors will propose at the next shareholders' meeting that no dividend be paid in respect of 2016.

Regulatory capital and solvency

Dexia Crédit Local monitors its solvency using rules established by the Basel Committee on Banking Supervision and European Directive CRD IV. On the other hand, the Group ensures observance of the capital requirements imposed by the European Central Bank (ECB), within the framework of Pillar 2 of Basel III, following the Supervisory Review and Evaluation Process (SREP).

The year 2016 was marked by the 60% deduction of the AFS reserve, in accordance with the calendar defined by the CRD IV Directive, and by the cancellation of the national discretion authorising the Group not to deduct the AFS reserve associated with sovereign securities from its regulatory capital.

Prudential requirements applicable to Dexia Crédit Local with regard to solvency

In December 2016, the European Central Bank (ECB) sent Dexia its conclusions within the framework of the supervisory review and evaluation process (SREP). Inter alia, it sent Dexia Crédit Local the qualitative and quantitative regulatory capital requirements which will be applicable to it and its principal entities as from 1 January 2017, in accordance with the Regulation (EU) No 1024/2013 of the Council dated 15 October 2013.

The ECB required Dexia Crédit Local to comply with a Total Capital ratio of 9.875%, including the capital conservation buffer of 1.250%.

These levels are also applicable to Dexia Crédit Local, on a consolidated basis.

Regulatory capital

Total capital can be broken down as follows:
• Common Equity Tier 1 capital, including in particular:
– share capital, premiums, retained earnings,
– profits for the year,
– gains and losses directly recognised in equity (revaluation of financial assets available for sale or reclassified, revaluation of cash flow hedge derivatives and translation adjustments),
– the eligible amount of non-controlling interests,
– after deduction intangible assets, goodwill, accrued dividends, own shares, the amount exceeding thresholds provided with regard to deferred tax assets and for holding shares and interests in credit or financial institutions and elements subject to prudential filters (own credit risk, Debit Valuation Adjustment, cash flow hedge reserve, Additional Valuation Adjustment).
• Additional Tier 1 including Tier 1 subordinated debt (hybrid);
• Tier 2 Capital which includes the eligible portion of Tier 2 subordinated debt as well as surplus provisions on the level of expected losses, reduced by the surplus amount of thresholds provided with regard to holding subordinated debt issued by financial institutions.

In accordance with regulatory requirements and applicable transitional provisions:

• Gains and losses directly recognised in equity as revaluation of sovereign and non-sovereign bonds and shares classified as "available for sale" (AFS) are progressively taken into consideration over a period of five years from 1 January 2014 at 20% per annum cumulatively, i.e. 60% in 2016.
• Non-controlling interests are partially eligible for Tier 1 capital; their limited inclusion is the object of transitional provisions;
• Certain adjustments on subordinated and hybrid debt must be taken into consideration in the calculation of capital in order to reflect the loss-absorption characteristics of these instruments.

As at 31 December 2016, the Dexia Crédit Local Total Capital reached EUR 5,802 million, against EUR 6,436 million as at 31 December 2015. This reduction is principally explained by the 60% deduction of the AFS reserve in 2016 against 40% in 2015, in accordance with the calendar defined by the CRD IV Directive. Furthermore, until 30 September 2016, Dexia Crédit Local benefited from a national discretion authorising it not to deduct from its regulatory capital the AFS reserve associated with sovereign securities. Taking these two measures into account increases the amount deducted from regulatory capital by virtue of the AFS reserve to EUR -2.7 billion as at 31 December 2016 from the amount of EUR -1.2 billion as at 31 December 2015. The effect of these measures is partially offset by the positive net result for the financial year, and by a series of measures including the sale of heavily weighted assets or holdings directly deducted from equity and aimed at increasing Dexia Crédit Local's regulatory capital.

Common Equity Tier 1 Capital followed a similar trend and was at EUR 5,676 million as at 31 December 2016, compared to EUR 6,426 million as at 31 December 2015.

REGULATORY CAPITAL (in EUR million)	**31/12/2015**	**31/12/2016**
Total Capital	**6,436**	**5,802**
Common Equity Tier 1 Capital	**6,426**	**5,676**
Core shareholders' equity	7,558	8,193
Gains or losses directly recognised in equity on available-for-sale or reclassified assets	(1,128)	(2,546)
Cumulative translation adjustements (group share)	170	202
Actuarial differences on defined benefit plans	(4)	0
Non-controlling interests eligible in Tier 1	292	259
Items to be deducted:		
Untangible assets and goodwill	*(26)*	*(32)*
Ownership of Common Equity Tier 1 instruments in financial institutions (>10%)	*(9)*	*(7)*
Own credit risk	*(173)*	*(148)*
DVA	*(122)*	*(80)*
AVA	*(136)*	*(166)*
Additional Tier 1 Capital (Hybrid)	**10**	**11**
Subordinated debt	39	34
Items to be deducted:		
Ownership of Tier 1 instruments in financial institutions (>10%)	*(29)*	*(23)*
Tier 2 Capital	**0**	**115**
Subordinated debt	47	38
of which additional Tier 1 reclassified (hybrid)	*17*	*23*
IRB provision excess (+); IRB provision shortfall 50% (-)	261	247
Items to be deducted:		
Ownership of Tier 2 instruments in financial institutions (>10%)	*(309)*	*(170)*

As at 31 December 2016, the Group's Tier 1 hybrid capital securities represented a nominal total of EUR 96 million, including EUR 58 million eligible as additional Tier 1.

As at 31 December 2016, Dexia Crédit Local's Tier 1 hybrid capital securities represented a nominal total of EUR 56 million, including EUR 34 million eligible as additional Tier 1 and EUR 17 million reclassified as Tier 2. Taking account of regulatory deductions, additional Tier 1 amounted to EUR 11 million.

No hybrid debt buyback operations were carried out in 2016. Dexia Crédit Local hybrid Tier 1 capital therefore consists of EUR 56.25 million nominal of perpetual non-cumulative securities issued by Dexia Crédit Local. These securities (FR0010251421) are listed on the Luxembourg Stock Exchange.

Total outstanding Tier 2 subordinated debt amounted to EUR 422 million as at 31 December 2016 and included EUR 16 million of eligible subordinated debt. Taking account of the additional Tier 1 reclassified, the IRB provision excess and the regulatory deductions, Tier 2 Capital amounted to EUR 115 million.

Dexia's revised orderly resolution plan includes certain restrictions concerning the payment of coupons and the exercise of calls on subordinated debt and hybrid capital from the Group's issuers. In this way, Dexia is only required to pay coupons on hybrid capital and subordinated debt instruments if there is a contractual obligation to do so. Dexia cannot exercise any discretionary options for the early redemption of these securities.

In addition, as announced by Dexia on 24 January 2014, the European Commission refused to authorise the Group's proposal to repurchase the hybrid capital debt issued by Dexia Funding Luxembourg (XS0273230572), noting that the subordinated creditors must share in the financial burden resulting from the restructuring of financial institutions that have been granted State aid. The European Commission has also informed Dexia that it is authorised to communicate this information to the holders of this instrument and to the holders of financial instruments with identical characteristics. Financial instrument FR0010251421 issued by Dexia Crédit Local has similar characteristics.

The European Commission requested that Dexia communicates that this decision relates to its own situation and does not mean that similar decisions will be taken in respect of such financial instruments issued by other European banks subject to orderly resolution plans under the supervision of the Commission.

Risk-weighted assets

At the end of 2016, risk-weighted assets amounted to EUR 43.2 billion, including EUR 40.8 billion for credit risk, EUR 1.4 billion for market risk and EUR 1 billion for operational risk. As a reminder, at year-end 2015, risk-weighted assets amounted to EUR 51.1 billion, including EUR 47.8 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall was for the most part induced by the reduction of the asset portfolio. The fall of risk-weighted market assets is associated with the decline of general and specific interest rate risk and the reduction of the specific foreign exchange risk.

RISK-WEIGHTED ASSETS (in EUR million)	31/12/2015	31/12/2016
Credit risk-weighted assets	47,863	40,838
Market risk-weighted assets	2,248	1,367
Operational risk-weighted risks	1,000	1,000
TOTAL	**51,111**	**43,206**

Solvency ratios

Dexia Crédit Local's Common Equity Tier 1 ratio(1) was 13.1% as at 31 December 2016.

As from 1 January 2017, Dexia Crédit Local must comply with a Total Capital ratio of 9.875%. As at 31 December 2016, Dexia's Total Capital ratio was 13.4%. As at 1 January 2017, it is estimated at 11.3%, after the 80% deduction of the AFS reserve associated with sovereign and non-sovereign securities.

SOLVENCY RATIOS	31/12/2015	31/12/2016
Common Equity Tier 1 ratio	12.6%	13.1%
Total Capital Ratio	12.6%	13.4%

Liquidity management

In 2016, Dexia Crédit Local has adopted a prudent liquidity management policy in order to anticipate any market disruptions. At the same time, the bank optimized its funding mix, by reducing its reliance on central bank funding.

(1) Ratio including the net income for the financial year.

The net amount of cash collateral posted by Dexia Crédit Local to its derivatives counterparties suffered pronounced volatility over the year, reaching EUR 38.3 billion before gradually returning to the level at the end of 2015. As at 31 December 2016, the net amount of collateral was EUR 32.7 billion, against EUR 32.1 billion at the end of 2015.

At the same time, the bank's volume of funding significantly shrank, from EUR 162.8 billion in December 2015 to EUR 146.5 billion at year-end 2016. This evolution is principally explained by the reduction of the size of the asset portfolios.

Over the year, Dexia Crédit Local adjusted its funding mix by favouring cheaper funding sources. The bank accordingly reduced its recourse to the European Central Bank to EUR 655 million as at 31 December 2016, in the form of LTRO, whilst that outstanding had been EUR 15.9 billion a year earlier.

During the year, Dexia Crédit Local successfully launched various long-term public benchmark transactions, in euro, US dollar and sterling, ranging from 3 to 7 years. These issues totalled EUR 5.5 billion, USD 3 billion and GBP 0.8 billion and, combined with private placement activity, enabled total long-term guaranteed funding to be raised in an amount equivalent to EUR 13.2 billion, thus covering the 2016 requirements in September and enabling the 2017 funding programme to be prefunded. At the same time, Dexia Crédit Local was extremely active in its short-term funding through various guaranteed programmes in euro and US dollar. Short term funding activity accounted for 544 transactions totalling EUR 50.5 billion. The average term of the short-term funding exceeded 7 months. As at 31 December 2016, the outstanding guaranteed debt was up, at EUR 71.4 billion, against EUR 61 billion at the end of 2015.

Dexia Crédit Local also continued its short and long-term secured market funding efforts, with outstandings slightly lower than the previous year, falling from EUR 67.4 billion at the end of 2015 to EUR 58.4 billion as at 31 December 2016, in line with the reduction of the stock of assets eligible for this type of funding.

Consequently, as at 31 December 2016 Dexia Crédit Local's funding now relies on guaranteed funding and secured market funding, at 49% and 41% respectively, whilst central bank funding was significantly reduced (0.4%). However, Dexia Crédit Localretains the capacity to access the latter type of funding in the case of necessity.

At the end of 2016, Dexia Crédit Local had a liquidity reserve of EUR 18.2 billion, including EUR 14.9 billion in the form of eligible assets with the European Central Bank.

Human resources, environmental and social data

Dexia Crédit Local's sustainable development approach

Dexia Crédit Local subscribes to the sustainable development approach pursued by the Dexia Group.
Since 2001 the Dexia Group has published a sustainable development report devoted to the steps and measures taken in the field of corporate social responsibility (CSR). This report is henceforth published by each of the Group's operational entities. In light of the Group resolution process, Dexia no longer publishes a consolidated CSR report.

The French legal and regulatory framework relating to CSR reporting

This part of the registration document presents the CSR information pertaining to Dexia Crédit Local as requested by Article L.225-102-1 of the French Commercial Code.

Methodology

As a company the securities of which are admitted for trading on a regulated market, Dexia Crédit Local is required to include in its management report the measures and courses of action taken to take into account the social and environmental consequences of its activities and to meet its social commitments in favour of sustainable development.
The information to be reported covers 43 topics grouped into three categories: information on human resources, environmental data and data on the company's social commitments in favour of sustainable development.
The companies included within the scope of the CSR reporting correspond to those falling within Dexia Crédit Local's financial consolidation scope. It includes Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, DCL Sucursal em Portugal, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch.
In order to reflect the situation of the Dexia Group, as the activities of Dexia Crédit Local and its parent company Dexia are considerably interlinked, certain data have been included in the scope of the Group as a whole. The main difference in scope between the Dexia Group and Dexia Crédit Local relates to the parent company of Dexia Crédit Local, Dexia, based in Belgium. Some information refers to classifications used specifically in France, and their presentation is limited to the scope of the Dexia Crédit Local Economic and Social Unit (ESU).

It should be noted that some topics do not concern or no longer concern Dexia Crédit Local and its subsidiaries or branches due to the Group's resolution, which resulted in a significant reduction in the consolidation scope of the Dexia Crédit Local Group. The following topics are excluded on account of their insignificance or immaterial nature:
- Resources devoted to the prevention of environmental risks and pollution.
- The amount of provisions and guarantees for risks in the field of the environment.
- Measures for preventing, reducing or compensating for discharges into the air, the water and the soil that have a serious impact on the environment.
- The taking into consideration of noise pollution and any other type of pollution specific to an activity.
- Ground use.
- Measures taken to preserve or develop biodiversity.
- The promotion and observance of the stipulations of the fundamental conventions of the International Labour Organisation concerning the eradication of forced labour and the abolition of child labour.
- Other actions in favour of human rights.
- Food waste.
- Consumer health and safety, in the absence of commercial activity by Dexia Crédit Local, within the framework of the orderly resolution.

Absenteeism, remuneration, training and data relating to accidents are reported within the scope of the ESU Dexia Crédit Local France including Dexia CLF Banque, this information not being the subject of consolidation at a global level and Dexia Crédit Local being managed in orderly resolution.
Energy consumption is reported for Dexia Crédit Local registered office, Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local New York Branch and Dexia Crédit Local Dublin Branch.
Emissions per type of transport are reported according to this same scope.
Dexia Crédit Local has commissioned the firm Deloitte for the validation of the extra-financial data reported below for the year 2016.

1. Social data

Data relating to employment included in this report relate to the Dexia Group as a whole, including Dexia, parent company of Dexia Crédit Local.
Other data presented are specific to Dexia Crédit Local and therefore fall within the scope of Dexia Crédit Local.

1.1. Employment-related information

Breakdown of members of staff per entity

	2015	2016
ESU Dexia Crédit Local (except for Dexia seconded employees)	661	639
Dexia	78	69
Dexia Crediop	119	114
Dexia Kommunalbank Deutschland	78	81
Other European entities	115	111
Other non-European entities	122	120
All categories	**1,173**	**1,134**

(Scope: Dexia Group)

Breakdown of members of staff by geographic area

	2015	2016
France	661	639
Belgium	78	69
Spain and Portugal	37	34
Italy	119	114
Germany	78	81
Other European countries	78	77
North America	121	119
Other non-European countries	1	1
TOTAL	**1,173**	**1,134**

(Scope: Dexia Group)

Breakdown of members of staff by gender

	2015			2016		
(in EUR)	Women	Men	Total	Women	Men	Total
Management staff	4	17	21	4	15	19
Executives	343	453	796	341	429	770
Non-administrative staff members	178	178	356	169	176	345
Overall total	**525**	**648**	**1,173**	**514**	**620**	**1,134**

(Scope: Dexia Group)

Agency staff

As at 31 December 2016 the company did not have recourse to agency staff.

(Scope: Dexia Group)

Workforce as at 31 December 2016 and breakdown by gender and socio-professional category

The Dexia Group workforce was 1,134 persons as at 31 December 2016 (1,102 full-time equivalents), against 1,173 persons in 2015 (1,139.94 full-time equivalents).

In the Dexia Group scope, a total of 117 staff members were hired in 2016 (against 138 in 2015), including 68 indefinite term and 49 definite term.

FTE	2015	2016
Management staff	21	19
Executives	780.15	755.25
Staff members	338.79	327.9
Overall total	**1,139.94**	**1,102.15**

(Scope: Dexia Group)

Breakdown of staff members by age and socio-professional category

	<25	25 - 29	30 - 34	35 - 39	40 - 44	45 - 49	50 - 54	55 - 59	60 and +	Overall total
Management staff	**0**	**0**	**0**	**1**	**5**	**4**	**5**	**2**	**2**	**19**
Executives	**5**	**63**	**122**	**138**	**132**	**97**	**108**	**79**	**26**	**770**
Non-administrative staff members	**14**	**19**	**39**	**71**	**55**	**48**	**60**	**22**	**17**	**345**
Overall total	**19**	**82**	**161**	**210**	**192**	**149**	**173**	**103**	**45**	**1,134**

(Scope: Dexia Group)

Staff movements

	2015	2016
Permanent contract hiring	75	68
Individual redundancies affecting employees on a permanent contract	21	11
Economic redundancies affecting employees on a permanent contract	62	11
Resignations tendered by employees on a permanent contract	66	83
Shifts from fixed-term to permanent contract	15	4
Fixed-term hiring (including work-study contracts)	63	49
Fixed-term redundancies	1	0
Fixed-term resignations	5	3
End of fixed-term contract (including work-study contracts)	42	30
Permanent contract transferred to SFIL	7	0
Other	26	18

These figures should be supplemented by the 18 departures (Intra-group transfer / Retirement / Contractual breach / End of trial period / Departures and arrivals linked to expatriation.

(Scope: Dexia Group)

1.2. Reminder of structural measures set in place and developments in 2016

End 2012 to end 2014: reorganisation of the ESU Dexia Crédit Local, transfer of staff members to SFIL and deployment of the company project

To recall, Dexia presented a plan for the reorganisation of the ESU Dexia Crédit Local – CLF Banque on 28 September 2012 in the context of the restructuring of the Dexia Group and the implementation of a new plan for French public sector financing. This new system was characterised by the transfer of Dexia Municipal Agency (DMA) which has become the *Caisse Française de Financement Local* (CAFFIL) to a new entity, the *Société de Financement Local* (SFIL), owned by the French State, the *Caisse des Dépôts et Consignations* (CDC) and la Banque Postale (LBP). SFIL started operating on 1 February 2013. The launch of SFIL and CAFFIL drew on the tools and skills of the Dexia Crédit Local teams. At the end of 2014, some 300 members of staff had joined SFIL.

In the spring of 2013 the change in the Group's mission and size prompted the management to start thinking about new strategic goals, the operating model and organisational simplification within Dexia.

The thought given to these matters and the work carried out by the Group Committee led to the company project which was presented to the staff representative bodies on 4 February 2014. After numerous exchanges, these bodies delivered their opinion on 31 March 2014, thus enabling operational implementation of the plan.

The change brought about by this company project has also been accompanied by the definition of new values (cohesion, adaptability and professionalism) and associated conduct.

2015-2016: launch of outsourcing projects

Within the framework of the orderly resolution plan and to ensure operational continuity, in 2015 the Group began consideration of the opportunity to outsource all or some of the functions of the middle and back office market operations.

In 2016, Dexia broadened the reflections begun in 2015 on the opportunity to outsource some of the bank's market activities to other production functions, more particularly activities in relation to reporting, the handing of operations and IT systems development and maintenance. This initiative, only relating to activities performed in France and Belgium, would enable Dexia to deal with the issues of its orderly resolution more effectively: the management and decrease of the asset portfolio, control of operating costs and control of risks.

1.3. Remuneration and company benefits

Remuneration policy

The scheme in place within the Group provides that the Dexia Remuneration Committee prepares all matters relating to remuneration policy. Its proposals are then submitted to Dexia's Board of Directors, which approves the appropriate measures to be taken. The remuneration policy thus validated is then submitted to the Dexia Crédit Local Board of Directors for approval.

Dexia defines its remuneration policy in observance of the commitments made to the Belgian, French and Luxembourg States and the European Commission in the framework of the Group's orderly resolution plan. In particular Dexia applies the remuneration principles derived in the context of the G20, the national bodies, the CRD IV. The Group ensures that it makes the best use of public funds as regards remuneration.

This policy applies to both fixed (non-performance-related) remuneration and any variable (performance-related) remuneration, the general principles of which apply to all members of staff. These principles include aligning remuneration policies and practices in order to create a balance between fixed and variable remuneration that does not encourage excessive risk-taking and establishing methods for evaluating the relationship between performance and variable remuneration.

In order to comply with rules and recommendations on good governance and sound remuneration practices and to avoid in any way incentivising excessive risk-taking, the Dexia Group has sought to reduce the variable component of remuneration for those of its members of staff who are contractually entitled to variable remuneration. The variable component of remuneration may not exceed 0.3 times an employee's annual fixed remuneration.

At the same time, in 2016, the members of staff in question benefited from additional non-variable remuneration (known as a "salary supplement") so as to increase their non-performance-related remuneration. This recurring supplement is subject to a continued employment requirement under which members of staff must be employed by Dexia Crédit Local on the last day of the quarter to which the salary supplement relates.

Furthermore, specific arrangements apply to a population specifically identified as liable to affect the Dexia Group's risk profile in view of the nature or level of their duties and/or remuneration (see page 34 of this registration document).

The remuneration policy and its implementation are regularly assessed to identify any provisions that might need to be adjusted, particularly in light of the entry into force of new legislation or regulations.

Annual average remuneration – change – breakdown by gender and socio-professional category

The data presented in the table below pertain to members of staff in service for two consecutive years on a permanent contract. Members of staff who have changed category are compared in the category to which they belong in the second year.

	2015			2016		
(in EUR)	Men	Women	Total	Men	Women	Total
Management staff	330,000	218,000	274,000	-	386,333	386,333
Executives	69,376	57,685	63,584	69,015	57,313	63,365
Administrative staff members	38,837	40,126	39,942	39,637	39,960	39,903
Non-administrative staff members	-	-	-	-	-	-
AVERAGE	**71,833**	**58,251**	**64,923**	**68,725**	**59,810**	**64,312**

(Scope: ESU Dexia Crédit Local – Dexia CLF Banque)

In 2016, the annual amount of the distributed gross wage bill totalled EUR 50.13 million, compared to EUR 50.42 million in 2012 (Scope: ESU Dexia Crédit Local – Dexia CLF Banque).

Employer's contributions

In 2016, the annual amount of the employer's contributions totalled EUR 29.46 million, compared to EUR 29.49 million in 2015 (Scope: ESU Dexia Crédit Local – Dexia CLF Banque).

Discretionary profit-sharing and share ownership

Discretionary profit-sharing

In accordance with the endorsement number 3 of 24 June 2016 to the profit-sharing agreement of 5 June 2014, the basis of assessment for calculation of the discretionary profit-sharing in 2016 is based, for this financial year, on the Dexia Group's Excess Capital calculated in terms of "Common Equity Tier 1". The formula also takes account of booster coefficients linked to the achievement of four strategic objectives (completion within the deadlines of three major IT projects for Dexia Crédit Local Paris, loans desensitised by Dexia Crédit Local Paris, Dexia Group funding plan and cost management within the Dexia Crédit Local Paris and CLF Banque entities).

Members of staff must have been with the company at least three months to qualify for discretionary profit-sharing.

The amount of discretionary profit-sharing paid to each eligible member of staff is proportional to his or her actual hours worked.

In calculating hours worked, part-time members of staff are treated separately from full-time members of staff.

Amounts paid out under the discretionary profit-sharing scheme may be paid directly to beneficiaries and/or invested in the Group employee savings plan (PEG) and/or the Inter-company Collective Retirement Savings Plan (PERCOI). The employer makes a 100% matching contribution up to a maximum gross amount of EUR 1,000 for all amounts invested in one or more of the funds offered by the PERCOI.

The following amounts of discretionary profit-sharing were paid in respect of the past three years (gross amounts excluding matching contributions):

- 2014: the amount allocated totalled EUR 1,061,500 (paid in 2015)
- 2015: the amount allocated totalled EUR 1,079,134 (paid in 2016)
- 2016: the amount set aside totalled EUR 1,250,000 (paid in 2017)

French compulsory profit-sharing

In accordance with the agreement of 25 June 2013, entered into for an indefinite period with effect from the year beginning 1 January 2013, the amount set aside for the special reserve for French compulsory profit-sharing (RSP) is calculated using the legal formula.

Eligibility for French compulsory profit-sharing is subject to the same length of service requirement as discretionary profit-sharing.

The amount due is proportional to the employee's annual remuneration, capped at four times the social security ceiling. Moreover, the total amount paid to an employee within a single year may not exceed three quarters of that same ceiling.

Amounts paid out under the French compulsory profit-sharing scheme may be paid directly to beneficiaries and/or invested in the Group employee savings plan (PEG) and/or the Inter-company Collective Retirement Savings Plan (PERCOI) and/or deposited in the restricted current account. The employer makes a 100% matching contribution up to a maximum gross amount of EUR 1,000 for all amounts invested in one or more of the funds offered by the PERCOI.

Considering the Dexia Crédit Local group's situation, no French compulsory profit-sharing was paid in 2014, 2015 and 2016.

Employee share ownership plan

Members of staff of Dexia Crédit Local were eligible to participate in the employee share ownership plans (ESOP) established for the entire Dexia Group until 2008. However, no new ESOP has been put in place since 2008.

Only shares issued by Dexia, the Group's Belgian holding company, may be included in mutual funds or directly held by members of staff as part of the Group employee share ownership plans.

Remuneration paid to executive officers and persons whose professional activities have a material impact on the company's risk profile

The Dexia Group's remuneration policy includes special provisions that apply to a specifically identified population whose duties could impact the Dexia Group's risk profile.

This population consists mainly of members of Dexia's Group Committee and members of staff whose total remuneration exceeds EUR 350,000 a year.

The remuneration of the members of the Group Committee is now based exclusively on a fixed element, with no performance conditions, and constitutes a whole from which, unless the Board of Directors decides otherwise on a proposal from the Remuneration Committee, a deduction is made of any attendance fees or percentage paid by a Dexia Group company or by a third party company in which an office is held in the name and on behalf of Dexia.

In compliance with existing legal and contractual requirements, contractual severance benefits granted to a senior executive or financial market professional may not in principle exceed 12 months' fixed and variable remuneration (18 months in special circumstances). Furthermore, the agreement providing for the granting of severance benefits must include a performance criterion.

1.4. Organisation of working time

Home working

An agreement on home working completing the agreement of 2013 was reached on 6 October 2014. The agreement is intended to provide all company members of staff whose duties enable them, technically and organisationally, to perform their work activities off-site with the opportunity to work remotely.

Part-time members of staff

As at 31 December 2016, within the ESU scope and out of a workforce of 61 part-time members of staff (65 in 2015), 47 worked four-fifths time and were primarily absent on Wednesdays. 12 worked on a part-time parental leave basis as at 31 December 2016.

Overtime

Dexia Crédit Local makes little use of overtime. Across the ESU, a total of 1,281 overtime hours were paid in 2016 (compared with 1,790 hours in 2015), equating to a gross amount of EUR 44,448 (compared with EUR 58,962 in 2015), worked by 137 members of staff.

Absenteeism

Across the ESU, an absenteeism rate of 4.7% was recorded in 2016 (number of days' absence divided by theoretical total number of working days), against 5.3% in 2015. The absenteeism rate takes into account sick leave and maternity and paternity leave.

1.5. Labour relations

Professional relations and staff representation

The group recognises, promotes and respects freedom of association and the right to collective bargaining. Any member of staff may establish or join a trade union organisation of his or her choice. In accordance with the applicable laws and regulations, the Group also recognises and respects the right of its members of staff to be represented by their trade union(s) as established through collective bargaining on labour relations.

Agreements signed within Dexia Crédit Local

The following agreements were concluded in 2016:

Endorsement to the PERCOI agreement

An endorsement to the agreement dated 11 June 2010 was signed on 12 January 2016 following the latest legislative developments and in particular the Macron Law on growth, activity and equality of opportunity dated 6 August 2015.

Framework agreement in relation to the planned provision of services between Dexia and Société Générale

A framework agreement was signed on 23 February 2016 to take account of the rights of institutions representing staff with regard to information, the deadline for examination and reflection and the formulation of observations and proposals as well as imperative aspects of the planned provision of services implied by a phased deployment over time and a dual consultation.

Endorsement to the social management agreement

An endorsement to the social management agreement dated 6 November 2014 was signed on 7 March 2016 and aimed at widening the benefit of its measures under certain conditions.

Endorsement to the discretionary profit-sharing agreement

An endorsement to the agreement dated 5 June 2014 was signed on 24 June 2016 in order to adapt the formula for calculation of the discretionary profit-sharing, whilst maintaining its random nature.

Endorsements to the agreements on health and provident costs

Two endorsements to the agreements dated 12 January 2006 were signed on 18 November 2016 in order to adapt contracts as provided in the agreements.

Negotiation initiated in 2016

The negotiation on an agreement in relation to jobs and skills planning which commenced in June 2015 continued in 2016. The company also opened renegotiation of the generation agreement relating to the three-year period 2017, 2018, 2019.

Consultation of Group staff members

A consultation of Group staff members, led in collaboration with an external institution and conducted on the basis of response anonymity, was performed in 2016. This consultation related to different topics, in order to gain a better awareness of the situation, operational reality and the motivation, concerns and expectations of staff members, against the background of a company managed in orderly resolution and in constant mutation.
The results and information gained in this study were the object of detailed presentations to staff members. They will enable lines of work to be defined with the perspective of improving working conditions in the Group and will serve in the reflections undertaken to define the Group's operating model.

1.6. Health and safety

Health and safety at work policy

Working conditions within the Dexia Group must be such that members of staff are safe and their physical and mental health is protected.
Rules governing health and safety in the workplace are in force within all group entities.
Dexia Crédit Local's French and foreign subsidiaries and branches all comply with the applicable local regulations and apply specific procedures on health and safety in the workplace. Members of staff are provided with documentation on health and safety in the workplace, which they must sign when they first join the entity. This documentation is also available via local intranets, and is regularly updated.
No health and safety agreement is in force at Dexia Crédit Local in 2016.
In 2016, the Dexia Crédit Local CHSCT met four times in regular meetings and sixteen times in extraordinary meetings.
Wishing to continue the psycho-social risks prevention policy initiated several years ago, management renewed the following psycho-social risk support and prevention mechanisms in 2016:
- Presence of an occupational psychologist,
- Presence of a social worker,
- Yoga classes,
- The system devoted to supporting members of staff leaving the company pursuant to the human resource management agreement of 6 November 2014 carried out by the firm BPI.

Management also wanted to maintain the training courses on psycho-social risk set up the previous year, in particular:
- Preventing office-related illnesses,
- Improving sleep and daily performance,
- Stress and sleep: understanding the interactions,
- Managerial practices to promote well-being and performance,
- Recognising and providing support to members of staff in difficulty.

Accidents

- Number of accidents at or while travelling to or from the workplace: 3
- Number of days off work as a result of accidents at or while travelling to or from the workplace: 9

- Frequency rate[1]: 3.1
- Severity rate[2]: 0.101
- Number of occupational diseases: 0

(Scope: ESU Dexia Crédit Local - Dexia CLF Banque)

1.7. Training and skills development

It is important to Dexia to provide all its members of staff with an environment in which each person's skills and knowledge can be developed with a view to contributing to the organisation and to the employability of the individual in question. A wide range of development opportunities and training courses is accessible to all members of staff. This skills management is carried out in close cooperation between the Human Resources department, the heads of support lines and direct managers. Dexia thus intends to perpetuate each employee's expertise in line with developments in the different job opportunities, by way of a guarantee of his or her performance and employability. Training forms an integral part of this development policy. Dexia's Human Resources department has expressed its intention to take action based on six major training lines:

- Accompanying the evolution of job opportunities and/or mobility;
- Employability within the specific context of Dexia;
- Enhancing managerial and collaborative skills and assisting with change against the background of managing the group in run-off;
- Detecting and preventing psycho-social risks with the emphasis place on wellbeing at work;
- Implementing regulatory mechanisms;
- Accompanying senior staff with the aim of keeping them in work.

In 2016, 137 collective training sessions were run by recognised training institutions and deployed in the premises of Dexia Crédit Local, thus representing 77 different training programmes. In addition to these collective training sessions, there were other training or information actions provided internally by colleagues as well as specific training undertaken individually with external training institutions.

The transmission of knowledge is fundamental in any organisation. At Dexia, 2016 saw the birth of a community of ad hoc internal instructors. This project arose from the desire to share the in-depth knowledge of our business line experts. The community of ad hoc instructors has the task of transmitting their knowledge to other group staff members and perpetuating skills within the company. These instructors are assisted by the Training department and themselves have benefited form training to acquire the basic instructors' skills, to gain the techniques of group animation and to establish a training support.

Furthermore, the training catalogue is available in the tool "Se Former". It enables each staff member and manager to follow their training actions and requests in real time.

In 2016, the number of hours of training (all forms combined, i.e. eligible and non-eligible, catalogue and external training) amounted to more than 18,500 for Dexia Crédit Local.

Development of talent

It is thanks to the contribution made by its staff that Dexia is able to meet its commitments to its shareholders and guarantors. This contribution is monitored and assessed by the managers during individual interviews with their members of staff.

(1) Number of accidents with days off work x 1,000,000/Number of actual work hours.
(2) Number of days lost x 1,000/Number of hours actually worked.

These interviews are henceforth formalised and recorded in the "Taleo Performance" tool, together with the definition of the targets for each member of staff; targets associated with the job description and behavioural targets linked to the Dexia values. This results in a strengthening of the individual monitoring of each member of staff.

Accompanying professional development

Moreover, in the context of the French reform of vocational training, each member of staff is invited on a biannual basis by his HR business partner for a professional interview. The purpose of this individual interview is, in complete confidentiality, to go over the prospects for his or her professional development with the member of staff, by taking stock of his or her professional career path, the development possibilities open to him or her and the associated training resources. It also affords the chance for different aspects of working life to be tackled: job content, supervision, remuneration, balance between private life and work, and professional career plan.

Careers Committee

The introduction of this committee was decided on at the beginning of 2014 as part of the company project and the HR action plan presented on that occasion and a major line of which relates to the development of skills and the employability of staff members.

This committee meets once a quarter and has the objective of promoting recourse to internal talents and thus to encourage the mobility of staff members, as a priority to seeking candidates externally. It studies all internal mobility requests made by any staff member or manager (change of activity line, business line and expatriation). It may also propose mobility options not requested in order to poster the maintenance of skills within the group.

The committee meets at the same time as the members of the group committee representing each of the activity lines and Human Resources representatives (DRH, Business Partners).

1.8. Equality of treatment

Agreement on professional gender equality

This agreement aims at intensifying the company's policy in this field. This intention is reflected in the adoption of specific measures in the following areas:

- An agreement entered into on 15 June 2015 for a period of three years reflects the company's commitment to improving its professional gender equality policy, in place for the past few years. This intention reflected in the adoption of specific actions in the areas of communication, recruitment, professional training, management of careers, job moves and promotions, work/life balance and remuneration. In this regard, a specific envelope of EUR 50,000 was allocated to the removal of any unjustified differences between the remuneration of men and that of women;
- Indicators have been put in place to monitor this policy on an annual basis;
- All of Dexia Crédit Local's foreign subsidiaries are committed to promoting gender equality.

Employment and integration of people with disabilities

At 31 December 2016 the workforce of the ESU Dexia Crédit Local included 13 members of staff with disabilities.

Combating other forms of discrimination

Dexia Crédit Local's French and foreign subsidiaries comply with all locally applicable measures to combat discrimination linked to a member of staff's age and encourage the recruitment and continued employment of people with disabilities.
Dexia Crédit Local promotes and complies with the requirements of the fundamental conventions of the International Labour Organisation regarding freedom of association, the right to collective bargaining and the elimination of discrimination in the workplace.

2. Environmental data

The environmental data presented in this report relate to the consolidated scope of Dexia Crédit Local. At a Group level, the impact of Dexia, the parent company of Dexia Crédit Local, on CO_2 emissions is limited and has been considered to be negligible.

Key information: energy consumption and staff travel

As part of their policy of reducing direct environmental impacts, Dexia Crédit Local and its French and foreign subsidiaries have a primary objective of reducing greenhouse gas emissions linked to energy consumption associated with their buildings and staff business travel. The bank pursues a proactive policy of reducing waste and responsibly using consumables.

2.1. Waste management and responsible management of consumables

Dexia Crédit Local's French and foreign subsidiaries have all put in place systems to sort, collect and recycle paper and internal waste (toners, electrical waste, obsolete equipment, etc.). All printers are configured by default to print double-sided in black and white, and all offices have individual selective recycling bins.
As part of its policy of responsible purchasing and reducing paper consumption, Dexia Crédit Local has implemented a range of actions concerning the types of paper used, such as decreasing the weight of paper and using only recycled, bleach-free virgin, PEFC-certified paper.
The company's United States branch sorts its waste both within its offices and at basement level to facilitate effective waste collection.
Dexia Kommunalbank Deutschland and its members of staff are ranging themselves behind the environmental protection approach. In this respect, Dexia Kommunalbank Deutschland uses recycled paper and has commissioned a waste management company presenting an environmental protection charter.

2.2. Sustainable use of resources

Energy consumption

In order to limit its carbon footprint, Dexia constantly seeks to improve the energy efficiency of its premises. The bank maintains the proportion of its electricity consumption accounted for by green electricity.
Energy consumption and associated greenhouse gas emissions are monitored at Dexia Crédit Local head office in France and at its subsidiaries. The table shows the energy consumption for 2016 for the Dexia Crédit Local head office, Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch. Consumption by Dexia, the parent company of Dexia Crédit Local based in Brussels is not included in this table. At a Group level, such consumption is limited, the space occupied by Dexia having been reduced to two floors of a building.

2016	Energy consumption (MWh)	Greenhouse gas emissions (tCO_2e)
Electricity	3,508	889
Heat	2,021	673
Gas	137	25
Oil	361	90
Cooling	2,131	43
TOTAL	**8,159**	**1,719**

The reduction of energy consumption is explained in part by the disposal of the CBX Tower in La Défense. Following that disposal, the consumption of electricity communicated by the owner of the tower only relates to the floors occupied by Dexia Crédit Local, whilst the entirety of the building's consumption was initially booked. Heat and cooling consumption cannot be segmented by the current owner of the tower, so it relates to the building as a whole and includes consumption by other users of the CBX Tower. Dexia Crédit Local occupies 13 floors out of 31 in all.
Local initiatives have been put in place to improve the energy efficiency of buildings:
• In France, Dexia Crédit Local has been using 100% green electricity to power its main buildings since 1 January 2008.
• Dexia Crédit Local New York's maintenance staff have been made aware of the Energy Star programme launched by the government and intended to promote energy savings in the United States. Low energy bulbs are used to light buildings, all products used are environmentally friendly and air conditioning units are inspected and cleaned every month.
• In Italy, Dexia Crediop uses hydroelectric power for virtually all of its energy needs.

Water consumption

Water consumption by the buildings of the Dexia Crédit Local head office was 22,346 m^3 in 2016. This relates to the entire CBX Tower in La Défense, and not the consumption attributable to Dexia Crédit Local, as the owner of the tower is not in a position to detail consumption by occupant. Dexia Crédit Local occupies 13 floors out of 31 in all.

2.3. Contribution to combating global warming

For several years, Dexia has been working to reduce its greenhouse gas emissions associated with staff business travel, focusing on two areas: reducing travel and minimising the impact of travel by encouraging the use of less polluting modes of transport.
The table below shows travel by train and aeroplane in 2016, as well as the associated greenhouse gas emissions, for Dexia Crédit Local (in France), Dexia Crediop, Dexia Kommunalbank Deutschland, DCL Sucursal en España, Dexia Crédit Local Dublin Branch and Dexia Crédit Local New York Branch. Travel by staff members of Dexia, parent company of Dexia Crédit Local based in Brussels, is not included in this table. At a Group level, the impact of its travel in terms of greenhouse gas emissions remains limited, as this is almost exclusively by train, between Brussels and Paris.

Greenhouse gas emissions by type of transport

2016	Km by air	Greenhouse gas emissions (tCo_2e)	Km by train	Greenhouse gas emissions (tCo_2e)	Total greenhouse gas emissions (tCo_2e)
Continental	866,468	95	143,692	3	98
Intercontinental	994,003	434			434
TOTAL	**1,860,471**	**529**	**143,692**	**3**	**532**

Analysis of items responsible for greenhouse gas emissions in scope 3 shows the following items to be the main sources for the Group: business travel, the impact of energy consumption by the provided in charge of managing the IT servers and emissions generated by projects financed by the Group. Within the framework of its resolution, Dexia is not in a position to quantify emissions generated by the projects financed.

Commuting

In France, Dexia Crédit Local is demonstrating its commitment in the area of staff travel by paying 60% of the cost of public transport passes for members of staff working at La Défense and 50% for those working outside the capital region.
In Ireland, in accordance with the provisions of the government's "Bike to Work" scheme, Dexia Crédit Local Dublin encourages members of staff to cycle to work.
Dexia Crediop has paid a portion of commuting costs since 2007. Other concrete steps have been taken, such as the creation of a cycle parking area at head office and involvement in the European Mobility Week.

Optimisation of business travel

In order to reduce distances travelled, members of staff are encouraged to make use of video ad telephone conferencing. Five videoconferencing units (including one mobile unit) have been installed in Dexia Crédit Local's building at La Défense, as well as in the Group's other entities. The use of these increased sharply in 2016. The use of telephone conferencing multiplied by almost 2.5 times, whilst that of video conferencing multiplied by more than 5 times.

Using an external provider for the management of IT servers

The Group uses an external provider for the management of its IT servers. The consumption of electricity attributable to this service, transmitted by the provider, is 629 MWh, or greenhouse gas emissions of 159 tCO_2e.

3. Data relating to social commitments in favour of sustainable development

3.1. Territorial, economic and social impact of the activity

Within the context of the company's transformation plan and its second employment protection plan, Dexia Crédit Local has an obligation of revitalisation towards the region where its registered office is established (Les Hauts-de-Seine). A new system was initiated in 2015 aimed at contributing to job protection or job creation in the *département* of Les Hauts-de-Seine over a period of three years. The new agreement signed on 12 February 2015 aimed to create 121 jobs in the local area (accompaniment of 20 SME). Considering the fact that Dexia Crédit Local is historically rooted in the field of local financing and in consideration of its commitment to sustainable development, this system targeted some twenty SMEs playing a role in such areas as transport, services to population groups, and energy savings and so on. The revitalisation activity carried out by Dexia Crédit Local is performed through the financing of external participants, such as consultancy firms, which bring in their expertise to the supported companies. At the end of December 2016, Dexia Crédit Local had already fulfilled two thirds of its commitment (accompanying 12 SME).
Moreover, within the context of its orderly resolution plan, Dexia Crédit Local has pursued a process of desensitisation of the sensitive structured loans granted to local authorities and to public-sector players. The progress that has been made in this process is detailed in the "Risk Management" chapter of this registration document.

3.2. Dialogue with stakeholders

Dexia Crédit Local communicates on a regular basis with the banking supervisors, the different parties actively involved in the Group's resolution, and with the local authorities (see the chapters "Highlights", "Risk Management" and "Report of the Chairman of the Board of Directors").

3.3. Partnership and sponsorship activities

Dexia Crédit Local's commitment to society has been reflected in policies and actions to benefit local actors in the different countries in which the company has a direct or indirect presence. Various permanent or ad hoc initiatives are organised within the Group.

"Caps of hope", a collection in support of people with disabilities

In 2012, Dexia Crédit Local decided to organise a solidarity-driven collection of bottle caps in the Dexia Tower at La Défense. This collection is intended for associations that finance equipment for sports adapted to disabled persons, such as for instance "Les Clayes Handisport", an association that strives to bring these people closer to clubs for able-bodied sportsmen so as to encourage their integration.
The items collected are bottle caps in hard plastic (polyethylene (PE) or polypropylene (PP)) that come from foodstuffs or household products. Over 2016, 150 kilograms of caps were collected. The campaign is being continued in 2017.

"Bright Future" mentoring programme

Dexia has responded to a call from the association Be.Face, a network of companies acting in real terms against exclusion in Belgium. Its aim, via its "Bright Future" programme, is to

facilitate the professional integration of vulnerable students and to support them in their professional careers through mentoring by confirmed professionals.
Presented to Dexia in October 2015, the "Bright Future" project has been extremely successful, 12% of the workforce submitting applications. This commitment continued in 2016 and is founded on voluntary and personal involvement.
In view of the success of this initiative at Dexia, the launch of similar projects within Dexia Crédit Local in France is being studied.

Collection of spectacles in favour of the OLSF association

Dexia Crédit Local's Works Council of organises the collection of new or used spectacles in favour of the OLSF association, the aim of which is to combat sight impairments throughout the world.

3.4. Consideration given to social and environmental issues in purchasing policy

In France, Dexia Crédit Local has been using green electricity exclusively to supply its main buildings with power since 1 January 2008.
In the United States Dexia Crédit Local New York uses a diesel fuel with a low sulphur content, making it less polluting, for its building's generator.
In Italy Dexia Crediop has recourse to hydroelectricity for almost all its energy requirements.

3.5. Fair practices

Dexia is committed to running its business professionally and responsibly as regards all its products and services and in its relations with clients, other players in the financial sector, the authorities and all internal and external partners.
Any business activity gives rise to compliance risk. Failure to understand or manage this risk properly could lead to financial or commercial losses and tarnish Dexia's reputation. It could also result in administrative, legal or criminal penalties.
The purpose of Dexia's integrity policy is:
• To promote open, honest and ethical behaviour; and
• To ensure compliance with legislation, regulations and other professional standards, as well as with Dexia's codes of ethics, codes of conduct and other Group policies, so as to promote and protect Dexia's reputation and that of its products, services and businesses.
The Compliance Charter sets out the Compliance function's role and remit and the governance principles underpinning Dexia's approach in this area.
These principles are reflected in policies and procedures implemented by all Group entities including Dexia Crédit Local and its subsidiaries and branches.

Preventing corruption

The Dexia Group has established rules applicable to all Group members of staff which aim to prevent corruption of a private nature. These are included in the integrity policy, the Dexia Group Ethics and Compliance Code and the policy on gifts, favours and invitations.
As part of its efforts to prevent corruption of a political nature, Dexia has adopted a "politically exposed persons" (PEP) policy. In particular, this policy is aimed at safeguarding against the risk of money laundering based on corrupt activities. The Group's country policy also incorporates corruption risk as a critical factor in the country risk classification established by the Compliance function.
Other specific policies are also designed to limit risk in this area – namely the whistleblowing policy, principles on the prevention of money laundering and terrorist financing, the policy on conflicts of interest, Dexia's policy guaranteeing the independence of its statutory auditors and the policy on the prevention of market abuse.

Preventing money laundering and terrorism financing

Dexia places the highest priority on effectively managing risk in relation to money laundering and terrorist financing and fully complying with associated domestic and international requirements.
In order to ensure a harmonised and consistent approach across the Group's various entities, Dexia has defined a series of broad policies (country policy, politically exposed persons, OFAC policy, etc.), based on which Group entities have adopted procedures and instructions detailing applicable requirements and formalities in respect of the following:
• Knowing and identifying clients, representatives, agents and beneficial owners;
• Conducting checks against official lists of criminals, terrorists, proponents of nuclear proliferation, etc., issued by domestic and international authorities;
• Monitoring account and business relationships throughout the relationship;
• Monitoring transactions and detecting suspicious transactions;
• Cooperating with regulatory and judicial authorities in the event of suspected money laundering or terrorist financing, in accordance with applicable requirements.

Market abuse and personal transactions

Dexia has put in place measures aimed at managing the risk of market abuse – i.e. insider trading and price manipulation in connection with financial instruments issued by Dexia or any other issuer.
These measures are primarily reflected in a policy aimed at preventing insider trading in connection with Dexia's financial instruments and a policy on personal transactions carried out by relevant persons. They also include measures governing confidentiality, insider lists and Chinese walls.

Integrity and preventing conflicts of interest

In accordance with the Markets in Financial Instruments Directive (MiFID), Dexia has put in place standards designed to guarantee a high level of investor protection, including, for example, its conflicts of interest policy.
Dexia is committed to complying with the operational rules of the markets in which it operates and with the internal rules and procedures of these markets. Dexia will not take part in any transactions which could contravene any laws or regulations.
Dexia is committed to ensuring that market traders act professionally and with integrity towards intermediaries and counterparties. It has developed policies and procedures to enable them to provide products and services in line with their categories and investment goals.

Internal rules have been adopted to govern external duties that might be performed by members of staff, in accordance with local rules and general principles on the prevention of conflicts of interest.
Dexia has a policy aimed at guaranteeing the independence of its statutory auditors.
One of the requirements of this policy is that, before any assignment not directly related to statutory audit work is assigned to the statutory auditors, checks should be undertaken to ensure that the assignment in question is not likely to affect the auditors' independence.

Whistleblowing

Dexia has put in place a whistleblowing system aimed at reducing the risk of financial losses, penalties or reputational damage as a result of failing to comply with legal and regulatory requirements.
This system enables Dexia members of staff to report any violation, abuse or problem that could be seriously damaging to Dexia.

Data protection and professional secrecy

Discretion and compliance with professional secrecy requirements (including, where applicable, banking secrecy) are essential in protecting Dexia's reputation; in this regard, procedures have been put in place throughout the Dexia Group in accordance with domestic regulations.

Dexia Group Compliance Charter in respect of supplier relations

Article 2.1 of the Dexia Group's Compliance Charter in respect of supplier relations covers issues relating to human resources, environmental and social data.

"Depending on the existing environment, legislation and the methods used to produce goods and services in each country, Dexia intends to select those suppliers who apply best practice and the most exemplary principles of social and environmental responsibility by:
- Not using, or allowing their own suppliers or subcontractors to use child labour (children under 15) or forced labour;
- Complying with all legislation and regulations aimed at providing staff with a safe and healthy working environment and working conditions in line with individual and collective freedoms, particularly as regards working hours, remuneration, training, trade union representation, and health and safety;
- Complying with all legislation and regulations on discrimination (including in particular discrimination on the basis of gender, ethnical origin, religion or political affiliation) in the recruitment and management of staff members;
- Not practising or supporting any form of psychological or physical coercion or hurtful or humiliating verbal abuse;
- Complying with the provisions of employment law both when recruiting staff members and throughout the term of their employment contracts;
- Complying with domestic legislation on environmental protection and promoting environmental best practice, particularly as regards designing innovative products, improving product life cycles, recycling and recovering waste.
- Protecting the confidentiality of personal data;
- Taking all measures designed to prevent corruption practices."

Copies of the Compliance Charter are always provided when issuing requests for proposals and one of the criteria for selecting suppliers is compliance with social and environmental obligations.
In addition, Dexia members of staff responsible for purchasing act within the framework of a specific code of conduct which sets the rules of behaviour for relationships with suppliers and subcontractors.

Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated human resources, environmental and social information included in the management report

For the year ended 31 December 2016

This is a free English translation of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France

To the Shareholders,
In our capacity as Statutory Auditors of Dexia Credit Local, (the "Company"), appointed as independent third party and certified by COFRAC under number(s) 3-1048[1], we hereby report to you on the consolidated human resources, environmental and social information for the year ended December 31st, 2016 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (*Code de commerce*).

Company's responsibility

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the protocol used by the Company (hereinafter the "Guidelines"), summarised in the management report and available on request.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics *(Code de déontologie)* of our profession and the requirements of article L.822-11 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

(1) whose scope is available at www.cofrac.fr

Statutory Auditors' responsibility

On the basis of our work, our responsibility is to:
– attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
– express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).
Our work involved three persons and was conducted in March 2017 during a three week period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000[2] concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.
We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.
For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

(2) ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in the paragraph "Methodology" of the "Social, Environmental and societal information" section of the management report.

Conclusion

Based on the work performed and given the limitations mentioned above, we attest that the required CSR Information relative to the movement on personnel, absenteeism, remuneration, accidents, and training, has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted six interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;

verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important[1]:

at parent entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;

at the level of a representative sample of entities by us[2] on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents between 31% and 100% of quantitative social data and between 55% and 100% of quantitative environmental data disclosed.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March, 28, 2017

One of the Statutory Auditors

Deloitte & Associés

Jean-Vincent COUSTEL
Partner

(1) Quantitative social information: Breakdown of members of staff by geographic area, gender and socio-professional category; Staff movements; Total number of training hours.
Environmental quantitative information: Total energy consumption (electricity, heat, gas, fuel oil, cold), greenhouse gas emissions associated with energy consumption; Greenhouse Gas Emissions by type of transport.
Environmental and societal qualitative information: Emissions of greenhouse gases Scope 3 - consumption of servers; Revitalisation actions

(2) UES Dexia Credit Local France

Terms of office and remuneration of corporate officers

In accordance with Article L.225-102-1 of the French Commercial Code, a list is provided below of the terms of office and duties performed by each corporate officer of Dexia Crédit Local during the 2016 financial year, as well as the remuneration paid to them during the same period. The composition of the Board of Directors is set out in the chapter "Report of the Chairman of the Board of Directors" in this registration document.

1. Duties and terms of office

Chairman of the Board of Directors

Mr Robert de Metz
3 January 1952
• Chairman of the Board of Directors of Dexia
• Chief Executive Officer of La Fayette Management Ltd (ended on 31/01/2016)
• Director of Média-Participations SA
• Chief Executive Officer of Bee2Bees SA
• Member of the Executive Committee of the Fondation pour les Monuments Historiques
• Chairman of the Board of Directors of Solocal

Chief Executive Office and Director

Mr Wouter Devriendt
10 April 1967
• Chairman of the Management Board of Dexia, Chief Executive Officer of Dexia
• Director and Chairman of the Board of Directors of Dexia Crediop

Executive Vice-Presidents and Directors

Mr Johan Bohets
13 September 1971
• Director and member of the Management Board of Dexia
• Director of Dexia Crediop
• Director of Dexia Holdings Inc.
• Independent Director of Keyware Technologies SA
• Director of Pinnacle Investments SA
• Manager of Moirai Management BVBA

Mrs Véronique Hugues
28 May 1970
• Executive Director and member of the Management Board of Dexia
• Permanent Representative of Dexia, permanent office in France
• Member of the Supervisory Board of Dexia Kommunalbank Deutschland AG

Mr Benoît Debroise
4 February 1960
• Member of the Management Board of Dexia
• Chairman of the Supervisory Board of Dexia Kommunalbank Deutschland AG

Members of the Board of Directors

Mr Corso Bavagnoli
21 July 1973
• Non-Executive Director of Dexia Crédit Local

Mr Bart Bronselaer
6 October 1967
• Independent Director of Dexia
• Director of the Fondation privée Le Bois Clair
• Director of the Fondation privée GH. Piot
• Director of Katholiek Onderwijs Kessel-Lo VZW
• Director of the Abbaye d'Oignies VZW
• Chairman of the Board of Directors of Right Brain Interface NV (until 27 January 2016)
• Director of Alpha 11 Inc. (United States)
• Director of Alpha 11 Europe (United Kingdom)

Mr Alexandre De Geest
5 February 1971
• Non-Executive Director of Dexia
• Director of the Fonds de Vieillissement
• General Administrator of the Belgian Federal Public Service Finance (FPS Finance)

Mr Thierry Francq
30 April 1964
• Non-Executive Director of Dexia

Mr Michel Tison
23 May 1967
• Independent Director of Dexia

Mr Koen Van Loo
26 August 1972
• Non-Executive Director of Dexia,
• Chief Executive Officer of the Federal Investment and Holding Company
• Director of Certi-Fed
• Director of Bel to mundial ASBL
• Director of the Société belge d'investissement international
• Director of Capricorn Health Tech Fund
• Director of Ginkgo Management Fund SARL
• Director of BILOBA Investment
• Director of Kasteel Cantecroy Beheer
• Director of Fundo Performa-Key de Inovaçâo em meio ambiente
• Director of Capricorn ICT Fund
• Director of Sopima SA (Belgium)

Mrs Alexandra Serizay
31 March 1977
• Director of Dexia
• Member of the Executive Committee of RBWM HSBC France

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Mrs Catherine Bachelet

Mr Philippe Keravel

2. Remuneration and regulated agreements for directors and officers

Dexia Crédit Local's directors and officers presented in this section are, on the one hand, the Chief Executive Officer and the Executive Vice-Presidents and, on the other, the company's non-executive directors as at 31 December 2016.

Messrs Karel De Boeck and Wouter Devriendt, successive Chief Executive Officers, as well as Claude Piret, Johan Bohets and Véronique Hugues Executive Vice-Presidents, do not receive any remuneration from Dexia Crédit Local for their offices within the company. Indeed, they exclusively receive remuneration from Dexia for their positions as members of its Management Board. Readers are therefore invited to refer to the remuneration report in Dexia's annual report, available at *www.dexia.com*, for further information in this regard.

However, in accordance with Article L.225-102-1 paragraph 2 of the French Commercial Code, the remuneration awarded to the directors and officers by other entities within the Group must also be indicated in this section.

2.1. Remuneration of the Chief Executive Officer and the Executive Vice-Presidents

Remuneration is based exclusively on a fixed element, with no performance conditions, and constitutes a whole from which, unless the Board of Directors decides otherwise on a proposal from the Remuneration Committee, a deduction is made of any director's fees or percentage paid to a Management Board member by a Dexia Group company or by a third party company in which an office is held in the name and on behalf of Dexia.

As a consequence, no variable remuneration has been or will be awarded to the Chief Executive Officer and to the Executive Vice-Presidents in relation to 2016.

Moreover, in accordance with the undertakings made by Dexia within the framework of the 24 January 2013 guarantee agreement concluded with the Belgian, French and Luxembourg States and for so long as guaranteed bonds are outstanding or liable to be issued, and unless agreed with the States, Dexia shall not award any stock options, warrants or free shares or pay any indemnities and benefits indexed to performance, or deferred remuneration to the following: Chairman of the Board of Directors, Chief Executive Officer(s), Executive Vice-Presidents and members of the Board of Directors.

Remuneration for the year 2016

Remuneration may comprise basic remuneration and a function premium paid quarterly.

The basic remuneration is determined considering the nature and importance of the responsibilities assumed by each individual and taking account of market references for positions of a comparable dimension.

SUMMARY TABLE OF THE BASIC REMUNERATION AND OTHER BENEFITS PAID IN THE YEAR 2016 TO THE CHIEF EXECUTIVE OFFICER

(in EUR)	Basic remuneration	Other benefits
Karel De Boeck[1]	229,546	0
Wouter Devriendt[2]	370,455	0

(1) Chairman of the Management Board until 18 May 2016
(2) Chairman of the Management Board from 18 May 2016

SUMMARY TABLE OF THE BASIC REMUNERATION AND OTHER BENEFITS PAID IN THE YEAR 2016 TO THE EXECUTIVE VICE-PRESIDENTS[1]

(In EUR)	Basic remuneration	Other benefits
Executive Vice-Presidents	1,666,994	78,000

(1) Mrs Véronique Hugues (as from 1 July 2016), Messrs Pierre Vergnes (until 30 June 2016), Claude Piret (until 23 October 2016), Johan Bohets and Benoît Debroise.

Discretionary pensions

The supplementary pension schemes from which MM. Karel De Boeck, Claude Piret, Johan Bohets and Benoît Debroise benefit give a right, at the time of retirement, to capital built up through the capi-talisation of annual contributions. These represent a fixed percentage of a capped annual fixed remuneration.

Annual premiums of EUR 372,760 were paid in 2016 to members of the Management Board, including EUR 120,967.82 to the successive Chairmen of the Management Board.

Supplementary cover for death, permanent disability and medical costs

Collective annual premiums of EUR 186,892 were paid in 2016 to members of the Management Board for supplementary cover for death, permanent invalidity and the costs of medical treatment, including EUR 74,505 to the successive Chairmen of the Management Board, broken down as follows:

DISCRETIONARY PLANS	(in EUR)
Death, orphan capital	52,903.69
Invalidity	21,013.75
Hospitalisation	588.05

Other benefits to the Chief Executive Officer and the Executive Vice-Presidents

SUMMARY TABLE OF THE BENEFITS GRANTED TO THE CHIEF EXECUTIVE OFFICER	(in EUR)
Representation fees	6,503.66
Car	999.68

SUMMARY TABLE OF THE BENEFITS GRANTED TO THE EXECUTIVE VICE-PRESIDENTS	(in EUR)
Other benefits[1]	55,947.42

(1) This amount includes the tax advantage associated with the provision of a company car also used for private purposes as well as the reimbursement of costs such as social insurance and representation fees.

Option plan

Since 2009, no options have been exercised or awarded.

Conditions relating to departure

Provisions of Dexia remuneration policy relating to severance payments

Under Dexia remuneration policy, any severance payment must correspond to effective performances over time and be designed so as not reward failure or improper conduct.

Members of the Management Board of Dexia may not be awarded a severance payment of more than 9 months of fixed remuneration.

Notwithstanding the above, Dexia may award a higher severance payment if the person concerned, prior to the grant of the executive's mandate, in accordance with the contractual framework in force and on the basis of their accumulated length of service with the Dexia Group, might have a right, in the case of redundancy, to compensation in lieu of notice higher than the severance payment indicated above, up to the amount of that compensation in lieu of notice at a maximum.

Provisions relating to the severance payment contained in management agreements

Mr Wouter Devriendt is entitled, if his contract is terminated by Dexia on grounds other than of serious misconduct, to notice (or compensation in lieu of notice) representing one month per year of service with a minimum of 3 months and a maximum of 9 months.

The management agreements of Messrs Benoît Debroise and Johan Bohets provide that in the case of termination by one of the parties prior to the expiry of the term of the agreement on grounds other than serious misconduct, notice of three months shall be served on the other party.

Departures during the year 2016

Mr Pierre Vergnes left Dexia with effect on 30 June 2016. A severance payment corresponding to 7 months of fixed remuneration was paid to him in accordance with the applicable contractual provisions.

Mr Claude Piret left Dexia with effect on 23 October 2016, with a severance payment equivalent to 1.5 months of fixed remuneration.

Mr Karel de Boeck left Dexia with effect on 18 May 2016. He received no severance payment.

2.2. Directors' remuneration

(in EUR)	Attendance fees paid for the 2015 financial year	Attendance fees paid for the 2016 financial year
Robert de Metz	0 (1)	0
Karel De Boeck	0	0
Claude Piret	0	0
Pierre Vergnes	0	0
Wouter Devriendt	NA	0
Johan Bohets	0	0
Véronique Hugues	0	0
Corso Bavagnoli (from 6 July 2015)	5,000 (2)	20,000
Patrick Bernasconi (until 17 March 2016)	15,240	5,000
Paul Bodart (until 16 November 2016)	18,200 (3)(4)	22,000 (5)
Bart Bronselaer	18,200 (3)(6)	24,000 (7)
Alexandre De Geest	18,200 (3)(8)	24,000 (9)
Thierry Francq	22,000 (10)	22,000 (11)
Françoise Lombard (from 17 May to 15 June 2016)	NA	3,000 (12)
Lucie Muniesa (from 18 May 2016)	NA	15,000 (13)
Alexandra Serizay (from 15 June 2016)	NA	14,000 (14)
Michel Tison	25,900 (3)	26,000 (15)
Koen Van Loo	18,200 (3)(16)	24,000 (17)

(1) Dexia paid Mr Robert de Metz gross annual fixed remuneration for his position as Chairman of the Board of Directors of EUR 250,000 in 2015 and in 2016.
(2) Attendance fees paid to Mr Corso Bavagnoli for his position as a director of Dexia Crédit Local were paid by Dexia Crédit Local to the French Treasury. In fact, by virtue of Article 139 of the French law on new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government.
(3) Net amounts, after 30% withholding tax paid to the French Treasury (Articles 119 ii - 2 and 187 of the French General Tax Code).
(4) Dexia paid Mr Paul Bodart gross remuneration, for his position as a director, member of the Audit Committee and the Appointment and Remuneration Committee of Dexia, of EUR 32,000 in 2015.
(5) Dexia paid Mr Paul Bodart gross remuneration, for his position as a director, member of specialist committees of Dexia, of EUR 24,750 in 2016.
(6) Dexia paid Mr Bart Bronselaer gross remuneration, for his position as a director, member of the Audit Committee and the Appointment and Remuneration Committee of Dexia, of EUR 27,000 in 2015.
(7) Dexia paid Mr Bart Bronselaer gross remuneration, for his position as a director, member of specialist committees of Dexia, of EUR 26,000 in 2016.
(8) Dexia paid Mr Alexandre De Geest gross remuneration for his position as a director of Dexia of EUR 17,000 in 2015.
(9) Dexia paid Mr Alexandre De Geest gross remuneration for his position as a director of Dexia of EUR 25,250 in 2016.
(10) The remuneration associated with the position of director of Dexia exercised by Mr Thierry Francq in 2015, namely a gross amount of EUR 21,500, was paid by Dexia to the French Treasury. The attendance fees paid to Mr Thierry Francq for his position as a director of Dexia Crédit Local in 2015 were also paid by Dexia Crédit Local to the French Treasury. In fact, by virtue of Article 139 of the French law on new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government.
(11) The remuneration associated with the position of director of Dexia exercised by Mr Thierry Francq in 2016, namely a gross amount of EUR 16,500, was paid by Dexia to the French Treasury. The attendance fees paid to Mr Thierry Francq for his position as a director of Dexia Crédit Local in 2016 were also paid by Dexia Crédit Local to the French Treasury. In fact, by virtue of Article 139 of the French law on new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government.
(12) The attendance fees paid to Mrs Françoise Lombard for her position as a director of Dexia Crédit Local in 2016 were paid by Dexia Crédit Local to the French Treasury. In fact, by virtue of Article 139 of the French law on new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government.
(13) The remuneration associated with the position of director of Dexia exercised by Mrs Lucie Muniesa in 2016, namely a gross amount of EUR 10,000, was paid by Dexia to the French Treasury. The attendance fees paid to Mrs Lucie Muniesa for her position as a director of Dexia Crédit Local in 2016 were also paid by Dexia Crédit Local to the French Treasury. In fact, by virtue of Article 139 of the French law on new economic regulations, attendance fees for mandates performed by representatives of the French government are to be paid to the French government.
(14) Dexia paid Mrs Alexandra Serizay gross remuneration for her position as a director and member of specialist committees of Dexia of EUR 5,500 in 2016.
(15) Dexia paid Mr Michel Tison gross remuneration for his position as a director of Dexia of EUR 16,000 in 2016.
(16) Dexia paid Mr Koen Van Loo gross remuneration associated with his position as a director and his functions within Dexia of EUR 25,000 in 2015
(17) Dexia paid Mr Koen Van Loo gross remuneration associated with his position as a director and his functions as member of specialist committees of Dexia of EUR 11,250 in 2016.

Information on non-regulated agreements and commitments in compliance with Article L.225-102-1 of the French Commercial Code

Article L.225-102-1 of the French Commercial Code now requires that companies list in their management report all agreements reached directly or via third parties between:

- A director, the Chief Executive Officer, one of the Executive Vice-Presidents of the company or one of its shareholders with voting rights higher than 10%, on the one hand; and,
- Companies in which the company directly or indirectly has a 50% holding or higher, on the other hand.

Agreements on current transactions signed under normal conditions do not have to be listed.

List of agreements included in the Financial Products (FP) portfolio guarantee

Dexia sold the Financial Security Assurance (FSA) insurance unit to Assured Guaranty Ltd (Assured). The transaction was finalised on 1 July 2009. FSA's Financial Products (FP) activity, managed by FSA Asset Management (FSAM), was excluded from the scope of the sale and is still part of Dexia Group. To the extent that FSA is the guarantor of the FP business' liabilities, the sale necessarily required that Dexia and Dexia Crédit Local guarantee FP's assets and liabilities.

In turn, Dexia received a counter-guarantee from the Belgian and French governments for certain FP business assets (Guaranteed FP Assets). The guarantee was approved by the European Commission on 13 March 2009[1]. It should be noted that in 2011 FSAM sold, via Dexia Crédit Local New York (DCLNY), all remaining Guaranteed FP Assets to third parties such that, on 31 December 2011, no Guaranteed FP Assets were covered by government guarantees. However, the guarantee continues to exist from a technical standpoint, although the risk of a call for the guarantee is theoretical.

The agreements referred to below are for the management of FP assets and liabilities held by FSAM and managed in run-off by the Group.

Pledge and Administration agreement, signed 30 June 2009, by Dexia, Dexia Crédit Local (DCL), Dexia Bank Belgium, Dexia FP Holdings Inc., FSA Asset Management LLC, FSA Portfolio Asset Limited, FSA Capital Markets Services LLC, FSA Capital Management Services LLC, FSA Capital Markets Services (Caymans) Ltd, Financial Security Assurance Inc. and The Bank of New York Mellon Trust Company, National Association;

(1) Detailed information on the guarantees has been published in Dexia annual reports since 2009 (the annual reports can be viewed on Dexia's website: www.dexia.com) and the main provisions of the guarantees are described in the 2011 annual report (page 165).

1.1 Dexia Guaranteed Put agreement signed 30 June 2009 by DCLNY, Dexia and FSAM;

1.2 *Dexia FP Guarantee Reimbursement* agreement signed 30 June 2009 by Dexia, DCL, FSAM and other GIC Business Entities;

1.3 *Dexia Non-Guaranteed Put agreement* signed 30 June 2009 by DCLNY, Dexia and FSAM;

1.4 *Administrative Services Agreement* signed 30 June 2009 by Dexia, DCL, AGM, DFPS, FSAM and other GIC Business Entities;

1.5 *Third Amended and Restated Intercompany* agreement signed on 20 February 2013 (effective 27 December 2012) by DSA, DCLNY and Dexia Holdings Inc.

Corporate governance and internal control

Report of the Chairman of the Board of Directors prepared in accordance with Article L. 225-37 of the French Commercial Code

This report describes the principles and procedures in force during fiscal period closed on 31 December 2014. It is established in accordance with ministerial decree of 3 November 2014 on internal audit in the financial, payment and investment services sectors, which defines the missions, principles and systems of internal audit as well as the frame of reference published by the French *Autorité des marchés financiers* (AMF).

This report, established by the Chairman of the Board of Directors of Dexia Crédit Local, was prepared by the Financial Communications department, the Secretary General and the Internal Audit department, which gathered the appropriate information from all of the operating and support departments concerned, and notably the Risk Management department.

This report also takes account of the meetings between the Chairman of the Board of Directors and the Chief Executive Office, as well as the summaries of all Audit Committee meetings.

1. Conditions for the preparation and organisation of the duties of the Board of Directors

In addition to the above-mentioned provisions, Dexia Crédit Local also refers to the provisions of its parent company (Dexia) in matters of corporate governance and with respect to the operation of the Board of Directors.

1.1. The Board of Directors

The Board of Directors is responsible for establishing and ensuring the implementation of the operational guidelines of Dexia Crédit Local. It acts out of concern for the company, including its shareholders, customers and employees. There are no potential conflicts of interest between the duties of the members of the Board of Directors with respect to Dexia Crédit Local and their personal interests and/or other duties.

On 1 March 2017, the Board of Directors was composed of 12 members, selected for their expertise and the contribution that they can make to the administration of the company. Mr Robert de Metz has served as Chairman of the Board of Directors since 10 October 2012. He organises and directs the activities of the Board, oversees the proper functioning of the corporate governance bodies of Dexia Crédit Local and participates in the company's dealings with institutional authorities. The function of Chief Executive Officer, which is dissociated from the chairmanship, was entrusted to Mr Wouter Devriendt, who was appointed by the Board of Directors on 7 May 2017, replacing Mr. Karel De Boeck. Mr Wouter Devriendt is assisted in his functions by five Executive Vice-Presidents, Mrs. Véronique Hugues, Mrs. Aline Bec and Messrs Johan Bohets, Benoît Debroise and Guy Cools. The Chief Executive Officer has the broadest powers to act under all circumstances in the name of Dexia Crédit Local, which he represents in its dealings with third parties. The articles of association do not limit the powers of the Chief Executive Officer, who acts in accordance with all applicable laws and regulations, the company's articles of association and the guidelines established by the Board of Directors.

In accordance with Article L.225-56, II, paragraph 2 of the French Commercial Code, the Executive Vice-Presidents have the same powers as the Chief Executive Officer with regard to third parties.

In accordance with the commitments taken by the Belgian and French governments with the European Commission as part of its validation of the revised orderly resolution plan, the Board of Directors of Dexia Crédit Local has the same members as the Board of Directors of Dexia. No non-voting members have been appointed. Consequently, on 1 March 2017, the Board of Directors of Dexia Crédit Local was composed as follows:

- Robert de Metz, Chairman of the Board of Directors;
- Wouter Devriendt, Chief Executive Officer;
- Véronique Hugues, Executive Vice-President;
- Johan Bohets, Executive Vice-President;
- Corso Bavagnoli, director;
- Alexandra Serizay, director;
- Lucie Muniesa, director;
- Bart Bronselaer, director;
- Alexandre De Geest, director;
- Thierry Francq, director;

- Michel Tison, director;
- Koen Van Loo, director.

In order to comply with the provisions of Article L. 225-17 of the French Commercial Code intended to ensure that boards are composed such as to ensure the balanced representation of men and women, and in accordance with the action plan proposed by the Appointments Committee and approved by Dexia Crédit Local Board of Directors, in order to achieve the objective of 40% women on the Board of Directors, the shareholders' meeting has appointed Mrs Véronique Hugues, Mrs. Françoise Lombard, Mrs. Alexandra Serizay and Mrs Lucie Muniesa as directors in 2016.

In line with their obligations under CRD IV and its national transpositions, Dexia Crédit Local has implemented the procedures and processes required for checking the expertise and professional integrity of directors, senior executives and the heads of the independent control function. Fulfilment of these obligations involves several departments, with the Human Resources department in charge, on behalf of the Management Board or the Board of Directors, of the selection and recruitment process, the Compliance department in charge of checking the integrity of candidates, the absence of conflicts of interest by virtue of other functions or mandates, and the Secretary General in charge of relations with the regulatory and supervisory authorities. This verification, performed at the time of candidate recruitment, will be assessed annually.

Members of the Board of Directors are required to comply with internal rules defining their responsibilities; these rules are drawn up in accordance with the principles embodied in Dexia Crédit Local's code of ethics.

These internal rules, which are available for viewing in the company's registered office, notably remind members how important it is that they participate actively in the board's work. The charter also specifies that members of the Board of Directors are considered to be persons who play sensitive roles, and therefore are subject to the strictest requirements with regard to the trading of Dexia shares. All Dexia share transactions by directors and officers must be signalled in advance to the Chief Compliance Officer of Dexia Crédit Local, and receive his prior approval.

The Board of Directors meets at least once every quarter. In 2016, it met 9 times. The attendance rate was 82%.

The Chairman of the Board of Directors and the Chief Executive Officer provide the members of the Board of Directors with all information – strategic information in particular – that they require to correctly perform their duties.

Prior to each meeting, the members of the Board of Directors are provided with an agenda and all reports and documents relating to items appearing on the agenda.

All director appointments are made in compliance with the prevailing legislation and the company's articles of association. At each quarterly board meeting, the Chief Executive Officer presents the activity and the financial statements for the preceding period. The board also reviews the work of the Audit Committee, internal controls and risk monitoring on an ongoing basis.

In 2016, in addition to issues related to company management and within its authority, the Board of Directors notably addressed the evolution of the governance of the company, the liquidity and capital situations as well as the prudential risk assessment, the monitoring of the revised resolution plan, asset sales and the rationalisation of the company's operating expenses

All information regarding remuneration and benefits paid to directors and officers of the company is provided in the chapter "Terms of office and compensation paid to directors and officers" of the management report.

1.2. Specialist committees of the Board of Directors

In accordance with Article L.511-89 of the Monetary and Financial Code and Article L.823-19 of the French Commercial Code, the Board of Directors must put in place the following specialist committees:

- Risk Committee;
- Audit Committee;
- Remuneration Committee and;
- Appointments Committee.

Due to the specific situation of the Dexia Group and in order to ensure simplified and unified Group management, these four specialist committees were created within Dexia, the parent company, in accordance with the applicable legal provisions governing duties and composition.

The Dexia annual report should also be referred to for more detailed information about these specialist committees.

After each committee meeting, a report on the work of the specialist committee concerned is presented to the Board of Directors. Minutes of the meetings of specialist committees are drawn up and sent to the Chairman of the Board of Directors in order for them to be included in the file for the next meeting of the Board of Directors, after their approval by all the members of the committee.

1.2.1. The Audit Committee

The Audit Committee implemented at the Dexia Board of Directors level and with authority for Dexia Crédit Local met six times in 2016.

The Audit Committee is made up of non-executive directors, among whom a majority of independent directors, including the committee chairman, in accordance with Belgian law.

The composition of the committee is as follows:
- Alexandra Serizay, independent director and chairman of the committee;
- Bart Bronselaer, independent director;
- Thierry Francq, director.

The Audit Committee is responsible for monitoring the accounts, and the financial information process. It examines the Dexia Group's draft annual, half-year and quarterly statutory and consolidated financial statements, which must then be presented, approved and published by the Board of

Directors. It examines all matters relating to those accounts and to the financial statements and in particular, from the documents submitted to it, the conditions for their preparation, the choice of accounting principles, the impairments, the observance of prudential standards, the relevance and permanence of the accounting principles and methods applied and the adequacy of the consolidation scope adopted. The Audit Committee also ensures the adequacy of the external audit for the Group's requirements.

In addition, the Audit Committee monitors the efficiency of the internal audit and risk management systems.

1.2.2. The Risk Committee

The Risk Committee implemented at the Dexia Board of Directors level and with authority for Dexia Crédit Local met seven times in 2016.

The Risk Committee is made up of non-executive directors, among whom at least one independent director, including the committee chairman. It must have sufficient skills in the fields of activity of the Dexia Group enabling it to understand the Group's risk strategy and level of tolerance.

The composition of the committee is as follows:
• Bart Bronselaer, independent director and chairman of the committee;
• Lucie Muniesa, director;
• Alexandre De Geest, director.

The Risk Committee is responsible for monitoring aspects of strategy and level of tolerance with regard to current and future risks. It assists the Board of Directors when the latter supervises the implementation of such strategy by the Management Board. The Risk Committee examines the (operational) implementation of procedures regarding risk control and internal audit. It ensures integrity and adequacy in relation to risk management, including procedures and organisational structures.

The Risk Committee also deals with any observations and recommendations from the supervisory authorities in matters falling within its competence.

The Audit and Risk Committees meet whenever necessary to deal with common subjects together, on convocation by the Chairman of the Board of Directors and the Chairman of the Audit Committee and the Risk Committee if need be.

1.2.3. The Remuneration Committee

The Remuneration Committee implemented at the Dexia Board of Directors level and with authority for Dexia Crédit Local met six times in 2016.

The Remuneration Committee is made up of at least three non-executive directors, including the Chairman of the Board of Directors and a majority of independent directors in the meaning of the Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members.

The Appointments Committee must have the necessary expertise enabling it to make pertinent and independent judgments on remuneration policies and practices.

The composition of the committee is as follows:
• Robert de Metz, independent director and chairman of the committee;
• Lucie Muniesa, director;
• Alexandre De Geest, director.

The Remuneration Committee:
• Prepares decisions of the Board of Directors on the remuneration of the Chairman of the Board of Directors, the Chief Executive Officer, the Executive Vice-Presidents and the members of the Management Board;
• Passes an opinion on the company's remuneration policy and any amendments made to it;
• Prepares decisions on remuneration and, in particular, those which might have repercussions on risk and risk management. It also prepares and supervises decisions relating to the remuneration of people in charge of independent control functions.

1.2.4 The Appointments Committee

The Appointments Committee implemented at the Dexia Board of Directors level and with authority for Dexia Crédit Local met eight times in 2016.

The Appointments Committee is made up of at least three non-executive directors, including the Chairman of the Board of Directors and at least one independent director in the meaning of the Belgian law. The Chief Executive Officer and the Head of Human Resources attend meetings, without being members.

The Appointments Committee must have the necessary expertise in appointments policy, appropriately assessing the skills and fields of expertise of people it appoints within the Dexia Group.

The composition of the committee is as follows:
• Robert de Metz, independent director and chairman of the committee;
• Lucie Muniesa, director;
• Michel Tison, director.

The Appointments Committee prepares decisions of the Board of Directors concerning:
• Proposals for the appointment or renewal of directors by the Board of Directions to the shareholders' meeting, and proposals to co-opt directors;
On the renewal of a director's mandate, the Appointments Committee assesses the director's participation in the operation of the Board of Directors and reports with a recommendation. For any new appointment, before considering the approval of the candidature, it ensures that the Board of Directors has, in accordance with internal procedures, received sufficient information on the candidate enabling it to assess whether that candidature meets the general profile of directors and the required skills;
• Determination of independence criteria enabling a director to be considered "independent";
• The qualification of an existing or new member of the Board of Directors as an independent director.

In general, the Appointments Committee ensures that decision-taking within the Board of Directors is not performed by one or more people in a manner prejudicial to the company.

Within its remit, the Appointments Committee deals with recommendations, circulars and other international, French and Belgian regulations on remuneration and corporate governance.

2. Internal control

2.1. Organisation of the internal control function

2.1.1. Role of the internal control function and architecture of the internal control process

a. Role of the internal control function

As for all credit institutions, the Dexia Group[1] is subject to the Single Supervisory Mechanism and the Single Resolution Mechanism put in place by the European authorities. The objectives and organisation of its internal control fall within the framework defined for these supervisory and resolution mechanisms as well as by the legislation and regulations of the countries in which Dexia operates.

The Dexia Group's internal control charter defines the fundamental principles governing the internal control function. Approved by the Dexia Board of Directors on 19 November 2015, this charter applies to all Group entities.

The control function contributes to:

• The effectiveness of the risk management process: the aim of the internal control function is to guarantee that the bank's activities are conducted with a degree of control over risks compatible with the level of risks accepted by the Board of Directors;

• Compliance with laws and regulations: internal control contributes to guaranteeing that Dexia and its subsidiaries fulfil their legal and regulatory obligations;

• The effectiveness and security of operational processes: internal control contributes to the proper functioning of operational processes and the effectiveness of operations, the integrity of information and compliance with decisions taken;

• The accuracy of accounting and financial information: internal control contributes to giving an assurance of the pertinence, accuracy, regularity, exhaustiveness and transparency of the production of accounting and financial information.

b. General architecture of the function

The general architecture of the internal control function of the Dexia Group is based on organisation at three levels:

• **The first level of control** is performed by each employee and their superiors, in accordance with responsibilities that have been expressly delegated to them, procedures applicable to the activity they perform, and with instructions provided to them;

• **The second level of control** is performed by specialist functions, independent from the activities controlled or members of staff who are independent from the activities controlled;

• **The third level of control** is performed by the Dexia Group Audit function, the task of which is, through periodic checks, to ensure that there is efficient and effective performance of both of the levels of control defined above, within the holding company and all of its subsidiaries and branches.

c. The main internal control participants

The participants concerned by internal control are as follows:

• **Staff members and their direct superiors** are responsible for defining and implementing first level controls, as an integral part of their activity, in accordance with regulations. The heads of each activity line are responsible for defining and updating a body of procedures adapted to the complexity and risks associated with their activity.

• **Permanent control** has the role of challenging key first level controls, implementing second level controls and collecting the results of key second level controls implemented by other specialist functions (for instance: Accounting Control, Validation, Credit Model Control).

The organisation of the Permanent control function is discussed in details in Section 2.1.5 below.

• **Compliance** ensures that all the regulations in the fields entrusted to it by the compliance charter adopted by the Board of Directors are applied on a permanent basis and do not, through their absence or non-application, result in the company running risks, either of administrative, disciplinary, financial or even reputational penalty.

The organisation of the Compliance function is discussed in details in Section 2.1.6 below.

• **Internal Audit** considers all the objectives of the organisation, analyses the risks liable to compromise the achievement of those objectives and periodically assesses the robustness of the controls put in place to manage such risks.

The organisation of the Internal Audit function is discussed in details in Section 2.1.7 below.

d. The independence of internal control functions

Internal control functions are strictly independent of the functions they control and daily activity management:

• The General Auditor and the Head of Compliance and Permanent Control report on the results of their control activities directly to the Management Board and to the Board of Directors;

• The General Auditor and the Head of Compliance and Permanent Control have direct access to the Chairman of the Board of Directors, to the Chairman of the Audit Committee and to the Chairman of the Risk Committee;

• A specialist committee assists the Board of Directors with regard to the remuneration of the General Auditor and the Head of Compliance and Permanent Control. Their remuneration is determined independently of the remuneration of the functions controlled;

• The Board of Directors is kept informed of appointments of the General Auditor and the Head of Compliance and Permanent Control. The Board of Directors must give his consent in the case where the Management Board decides to replace them.

e. Operational principles

Internal control activities are guided by the following principles:

• Risk-based approach: internal control within Dexia Crédit Local adopts a risk-based approach. The internal control functions determine their control programmes and their activities on the basis of a prior risk assessment.

(1) For the Dexia Group as for the Dexia Crédit Local Group, the notion of group used in the present report covers the parent company and the consolidated companies.

• Coordination: for the purposes of coordination and information sharing, the internal control functions have established a transversal Internal Control Committee in which internal Audit, the Compliance and Permanent Control department and the Risk department are represented. Despite their distinct role, the control functions work in a coordinated manner in order to avoid redundancies of tasks and the duplication of action plans;
• Common methodological references and tools: the control functions share common references and nomenclatures (for instance a common risk reference) and common methodological tools, in order to facilitate the production of reports to the bank's governance bodies.

2.1.2. Executive management and the Management Board

The Chief Executive Officer has ultimate responsibility for guaranteeing that the bank's internal controls function properly. He defines and coordinates the internal control policies of the Dexia Crédit Local Group. He also allocates resources and establishes deadlines for implementation of the actions that have been decided upon with respect to these policies. He verifies that the objectives that have been set are achieved, and that the internal control system meets all requirements. Lastly, he adjusts these requirements in relation to the internal and external developments observed.

To perform this assignment, the Chief Executive Officer is assisted by five Executive Vice-Presidents, who, along with the members of the management team, are continuously involved in the internal control system through their operating functions, their participation in various supervisory committees and the audit and other reports with which they are systematically provided.

The Chief Executive Officer of Dexia Crédit Local is the Chairman of Dexia's Management Board. In coordination with the Executive Vice-Presidents, who are also members of Dexia's Management Board, he is responsible for the oversight of all of Dexia Crédit Local's domestic and international subsidiaries and branches. This Group structure improves coordination between Dexia and Dexia Crédit Local, and increases the authority of the Chief Executive Officer over all the entities that report to Dexia Crédit Local, which contributes to greater risk management for the entire scope of Dexia Crédit Local and to optimised internal control.

2.1.3. The Risk activity line

Dexia Crédit Local Group policy on risks is defined and supervised by the Board of Directors.

The role of the Risk activity line is to implement the Group's strategy on monitoring and managing risk and to put independent and integrated risk measures in place. The Risk activity line identifies and monitors the risks to which the Group is exposed. If necessary it proactively alerts the relevant committees and proposes corrective actions where applicable. In particular, the Risk activity line decides on the amount of provisions deemed necessary to cover the risks to which the Group is exposed.

In 2016, the Dexia Crédit Local Group developed the governance and operational organisation of the Risk activity line, to adapt it to its resolution management mandate.

More detailed information is provided in the chapter "Risk Management" of this registration document.

a. Role of the Risk Committee, the Management Board and the Transaction Committee

The Risk Committee, created within the Dexia Board of Directors is responsible for monitoring aspects relating to risk strategy and level of tolerance of both current and future risk, as defined by the Board of Directors. It assists the Board of Directors in its supervision of the implementation of that strategy.

The Management Board is responsible for implementation of the various policies and directives framing Group strategy, particularly with regard to risk. To facilitate Group operations, a system of delegation of Management Board powers has been put in place.

The Management Board delegates its decision-taking powers in relation to operations giving rise to credit risks to a Transaction Committee. This committee includes the heads of the Assets, Funding and Markets, Finance, Risks and Secretariat General, Legal and Compliance activity lines. It can decide to submit larger credit files or those presenting a risk level considered sensitive to the Management Board, which remains the body taking the ultimate decision. For each file presented to the Transaction Committee, an independent analysis is performed, to reveal the main risk indicators, and a qualitative analysis of the transaction.

Depending on the nature of the portfolios or risks concerned, some of the powers of the Transaction Committee are delegated to the Assets and Risk activity lines, the task of which is manage Dexia Crédit Local assets over the period of the orderly resolution, whilst preserving and improving their value.

The Risk activity line establishes risk policies and submits its recommendations to the Management Board and to the Transaction Committee. It deals with the monitoring and operational management of Group risks under the supervision of those three committees.

b. Role of the Risk Management Executive Committee

The decision-taking body of the Risk activity line is its Executive Committee.

This committee consists of the head of Risks and the six heads of:
• The credit risk department,
• The market risk department,
• The operational risk department,
• The strategic risk and regulatory supervision department,
• The comprehensive risk assessment department,
• The governance, reporting and risk systems department.

It meets on a weekly basis to review risk management strategies and policies as well as the main internal reports prior to their dissemination outside the activity line. In addition, it is responsible for monitoring regulatory issues, validating collective provisioning methodologies and the general organisation of the activity line.

The organisation and operation of the activity line based on risk categories is detailed in point 2.3 below.

2.1.4. Control of subsidiaries and branches

The Dexia Crédit Local Group uses several tools to monitor and verify the operations of its subsidiaries and branches, depending upon their degree of autonomy from the parent company. French subsidiaries that have been created to house a specific activity (special-purpose entities) depend on the services provided by Head Office departments, and are included within the scope of the latter's internal control system. Control is therefore quite well integrated. This is the case, for example, for leasing companies.

Foreign branches and subsidiaries have their own staff and engage in a range of activities. They use the services provided by Head Office departments to a greater or lesser degree depending on their size and have internal control systems in line with their size, activity and the specificities of their local markets.

The risk management, permanent control, compliance and audit functions are all overseen directly by the appropriate departments of the Head Office of Dexia Crédit Local, with a specific organisation for each support line.

For all entities, control is based on a system of delegation of authority and regular reviews provided to the appropriate departments at Head Office (Risk, Finance, Legal, Compliance and Audit) and to the Dexia Crédit Local Management Board, and the participation of the members of the Management Board in the various administrative and decision-making bodies within each subsidiary.

2.1.5. Permanent Control

The Permanent Control mechanism outside Compliance relies firstly on the realisation of controls conceived, realised and formalised under the primary and direct responsibility of the operating units concerned and their superiors (first level permanent control). In other units, it relies on agents exclusively dedicated to control tasks, independently of operating units (second level permanent control).

Since April 2014, the mechanism for guiding permanent control has relied on a team under the responsibility of the Head of Compliance and Permanent Control. A unit dedicated to Accounting Control is placed at the level of the Finance department. This unit integrates the results of its works in the consolidated permanent control report, which is presented quarterly by the Compliance and Permanent Control department to the Management Board and, half-yearly, to the Risk Committee.

Permanent Control relies on a control plan the elements of which cover the main processes of the operational and dedicated units at head office, subsidiaries and branches. First level controls to be integrated in this plan are proposed by decentralised correspondents within the operational or dedicated units at head office, subsidiaries and branches. They are reviewed by the Compliance and Permanent Control department which may, if necessary, play a prescription role. The Compliance and Permanent Control department also identifies second level controls which it is responsible for realising.

The review of the control plan is performed in coherence with the results of the *Risk Control Self Assessments* and the events collected by the Operational Risk department, as well as with process mapping of critical processes pointed out by the Management Board, reports of the internal audit, statutory auditors and the regulators. After review, the plan is approved by the Management Board.

The Compliance and Permanent Control department guarantees, at a consolidated level for all subsidiaries and branches, the proper implementation of the permanent control plan, ensuring in a second reading the proper implementation of controls and by making a critical analysis of the results with regard to risks identified. The Compliance and Permanent Control department may ask for any substantiation of malfunctions observed, and ensure the introduction of action plans, if necessary, enabling any such malfunction observed to be remedied.

The permanent control mechanism is coordinated with other internal control actions and uses a tool and risk references and processes common to the entire Dexia Group. The Compliance and Permanent Control department assists the dedicated committee of units in charge of validating valuation models and the observance of internal rating systems. An internal control committee at Management Board level enables a consolidated view to be provided with the works of Internal Audit, the Compliance department and the Operational Risk and IT Systems Security department.

2.1.6. Compliance

The Compliance function is independent. It carries out its activities at Dexia Crédit Local without any influence, interference or restrictions likely to affect its independence, its integrity, its impartiality and its objectivity.

The Compliance function is an integral part of the internal audit mechanism of credit institutions and investment companies. The Compliance department of Dexia Crédit Local ensures the coherence and effectiveness of managing non-compliance risks.

The role and relevant fields of the Compliance function as well as the governance principles underlying the approach adopted by Dexia and Dexia Crédit Local with regard to compliance are included in the Compliance Charter, which was approved and entered into force in 2009 and was updated in 2014 and 2015.

The Compliance fields are as follows:
- The fight against money laundering and the financing of terrorism including the prevention of tax fraud;
- The control of information relating to the tax situation of clients and counterparties to respond to existing regulations;
- Market abuse and personal transactions;
- Integrity of markets in financial instruments;
- Integrity vis-à-vis clients;
- Data protection and professional secrecy;
- Prevention of conflicts of interests vis-à-vis clients and counterparties;
- External mandates;
- Independence of the statutory auditors;
- Observing the principles stated by the remuneration policy and meeting legal requirements with regard to the expertise and professional honour of members of the Management Board, directors, heads of independent audit functions and executives;

• Internal warning system at Dexia and Dexia Crédit Local;
• Other fields indicated by the Management Boards and Boards of Directors, considering the level of associated risk. In this regard the Compliance department of the Group and of Dexia Crédit Local guides the permanent control mechanism of the establishments concerned, including their subsidiaries and branches.

Within the framework of the fields of competence listed above, the Compliance function performs the following tasks:
• It analyses legal and regulatory developments in order to anticipate and assess possible consequences on Dexia Crédit Local's activities. For the fields covered by the compliance function, it ensures the correct interpretation of national and international legislation and regulations, and ensures that these provisions are included in the policies, procedures and other documents of the institution;
• It identifies, analyses and measures non-compliance and reputation risks which might arise from activities and financial products and the impacts in terms of evolution of the Group's scope;
• It provides assistance to activity lines in the development and implementation of compliance procedures and other documents. For example, it helps with the drafting of compliance manuals, internal codes of conduct and practical guides. It assists and advises in order to ensure the implementation of procedures complying with the regulations and to ensure observance of those external or internal norms;
• It develops and provides compliance training programmes, adapted to the needs of activity lines, promoting an appropriate compliance culture and awareness and understanding of standards, procedures and lines of conduct to be applied;
• To the extent that it is required by local regulations, it communicates with the financial regulators or any other competent authority about any suspect incident or transaction;
• It regularly presents its activities and reports on the status of any major shortcomings to the Management Boards and Internal Audit Coordination Committees.

Organisation and positioning

The Chief Compliance Officer of the Dexia Group reports to the Chief Executive Officer. An escalation right enables him to include an item on the agenda of the Management Board if circumstances so demand and to report any significant incidents directly to the Chairman of the Board of Directors of Dexia or to the Audit Committee members.

The Permanent Control function has reported to the Compliance department since 2014.

Since 2015 the Compliance Charter has integrated the contributions of the Directive CRD IV regarding provisions relating to the Chief Compliance Officer and enables the fields of competence of the compliance officers of entities if the regulations so require.

The Internal Control Committee, part of Compliance and Permanent Control, has the role:
• To have a consolidated view of risks and controls (operational risk, audit, permanent control and compliance);
• To make recommendations concerning malfunctions of all incidents associated with operational risk.

Several actions were implemented in 2016, on the one hand to ensure the implementation of measures intended to protect information within the context of the various projects for the restructuring of the Group or outsourcing and, on the other hand to strengthen the protection of personal data (particularly for the treatment of data violations) and the protection of clients. Depending on its role, the Compliance department guides or participates in the ensuring compliance with new regulations.

The rules concerning market abuse were strengthened in compliance with the amended regulatory framework applicable since July 2016. Actions were taken as a consequence to amend the policies and procedures. As regards more particularly the prevention of insider trading in Dexia financial instruments, rules define the statuses attributed to staff members according to the access to inside/sensitive information which they have or are liable to have through the performance of their tasks, and set the restrictions/obligations associated with each status. These obligations were recalled on several occasions during the Group restructuring operations.

Training sessions in the compliance fields were organised in all entities, including training on the code of professional ethics, in order to recall the key compliance principles, as well as on prevention, with the fight against money laundering and the financing of terrorism.

Compliance has also supported work by the operating departments in connection with moves to ensure compliance with the FATCA regulations on the one hand, and on the other, the EMIR regulations and Title VII of the Dodd Frank Act (Volcker Rules), and intervenes within the framework of complying with the provisions regarding the combating of money laundering and terrorism financing placed in compliance and complying with the "MIF2" regulations.

Concrete actions were gradually put in place to improve supervision of the network of subsidiaries and branches. In particular, updates of compliance policies were deployed in the subsidiaries and branches and such deployment was reviewed in compliance committees meeting with various compliance officers.

2.1.7. Periodic control

The Dexia Group's Internal Audit support line consists of Internal Audit and Inspection.

a. Internal audit

Role

Internal audit is an independent and objective activity giving the Board of Directors and the Management Board of the Dexia Group assurances concerning the quality and effectiveness of its internal control and risk management systems and governance procedures, contributing towards the protection of the Group's interests and reputation.

It considers all the objectives of the organisation, analyses the risks associated with those objectives and periodically assesses the robustness of the controls in place to manage those risks. Internal audit then provides management with an assessment of the residual risks so that management can validate the appropriateness for the global risk profile desired for the Dexia Group, and proposes actions to increase the effectiveness of controls.

Moreover, Internal audit assists the Boards of Directors of the Group and its entities in their supervisory role through its participation on the Audit Committees.

In line with international standards, a Dexia Group Audit Charter sets out the fundamental principles governing the internal audit function within the Group and describing its objectives, role and responsibilities, as well as how it operates. This charter was updated in June 2014 to take account of the Group's new configuration.

So that each Dexia Group employee can appreciate the importance of the internal audit function's role within the Dexia Group's internal control and management support systems, the Audit Charter has been published on the Dexia website *(www.dexia.com)*.

Main guidelines

The strategy, the level of requirements and the rules of operation for internal audit within the Dexia Group are set by the Dexia Management Board, within the framework approved by the Board of Directors, through its Audit Committee. This framework takes account of the requirements, legislation and local regulations and instructions from the prudential control authorities.

The independence and effectiveness of the audit function are guaranteed by applying the following principles:

- Each internal audit department reports directly to the highest level of authority within the entity
- The absence of involvement in the organisation and operational management of Group entities: the Management Boards of Group entities may exceptionally call on internal audit for opinions, advice or assistance. The rules relating to those duties are defined in title 9 of the Audit Charter.
- Unconditional and immediate access to information: within the framework of its tasks, the internal audit function has access to all the information, documents, premises, systems and persons within the entity for which it is responsible, including all management reports and the minutes of and information packages prepared for any advisory and decision-making bodies. The Dexia Group Internal audit department has access to all the information in all Group entities. Any breach of these principles is liable to be reported to the Management Board and, if relevant, the Audit Committee;
- The provision of the means necessary to perform its task: Internal audit receives from the Group's Management Board the means necessary to perform its task so as to respond constantly to changes in the Group's structures and environment.

At an individual level, each auditor must show the greatest professionalism and have ongoing training to ensure their mastery of the rapid changes to audit, banking, financial and IT techniques and those for combating fraud. Training needs are assessed in periodic and annual assessments. Auditors are required to comply with the Dexia Group's rules of professional ethics, as well as those specific to their profession. This means observance of the following fundamental principles:

- Integrity: the integrity of internal auditors is the basis for confidence in and the credibility of their judgement;
- Objectivity: auditors must show the highest degree of professional objectivity in collecting, assessing and communicating information relating to the activity or process examined. Internal auditors fairly assess all the relevant elements and are not influenced in their judgement by their own interests or those of others;
- Confidentiality: internal auditors have a duty of professional secrecy; they respect the value and ownership of the information they receive and only disclose this information with the required authorisations, unless a legal or professional obligation forces them to do so;
- Competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their tasks.

Scope for intervention

All the Dexia Group's activities, processes, systems and entities are within the scope of action for internal audit, without any reservations or exceptions. The scope includes all processes, whether operational, support, management, corporate governance and risk management and control processes. Outsourced essential activities also fall within the audit scope, given that operational services are responsible for organising the conditions for the possibility of audits by including audit clauses in service agreements.

Other than exceptions associated in particular with requests from the supervisory authorities, the audit scope does not however cover the activities of companies in which the Dexia Group only holds a minority interest. However, the Dexia Group's representative on the Board of Directors is responsible for learning about the state of the internal control mechanism and, if necessary, alerting the Management Board and the Audit department of the entity which holds that interest.

Organisation of the function

Principles

The Dexia Group internal audit function operates as an integrated support line composed of the Audit department of Dexia/Dexia Crédit Local and the Audit departments of subsidiaries and branches.

The support line is headed by the General Auditor of Dexia, who is also the General Auditor of Dexia Crédit Local, who reports to the Chief Executive Officer of Dexia (also Chief Executive Officer of Dexia Crédit Local). The General Auditor guarantees the appropriate cover of risks throughout Dexia as a whole. He monitors the supervisory bodies of the entities and their subsidiaries/branches, as well as all the tasks performed by the local bank supervisory authorities. The General Auditor periodically reports to the Management Board and the Audit Committee, on the tasks, powers and responsibilities of internal audit, the degree of implementation of the audit plan and the assessment of the internal audit environment.

The Audit departments of the subsidiaries/branches are under the responsibility of a General Auditor or a head of Internal audit. The General Auditors of Group subsidiaries report to the General Auditor of Dexia/Dexia Crédit Local. The General Auditor of Dexia/Dexia Crédit Local is responsible, in particular, and in association with the Chief Executive Officer of the entity concerned, for their appointment, setting their targets and their annual assessment. The auditor recruitment plans and the establishment of the budget for the audit departments of the main entities are also examined jointly. The heads of the internal audit teams of branches report to the General Auditor of Dexia/Dexia Crédit Local.

Each audit department is responsible for performing their task to the Chairman of the Management Board, to the extent that local rules permit, and to the Board of Directors of that entity, possibly assisted by an Audit Committee.

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Each General Auditor attends meetings of the Management Board of his entity (i) when the Management Board in question asks him to, (ii) when he presents an audit report or (iii) on his request when he wishes to raise a particular point within the framework of his attributions and responsibilities. He receives the agenda and files prepared for these meetings, as well as the minutes.

Each General Auditor has direct access to the Chairman of the Board of Directors, to members of the Audit Committee and the satutory auditors of his entity. The General Auditor of any Group entity also has direct access to the General Auditor of Dexia/Dexia Crédit Local.

The Chairman of the Board of Directors of each entity may delegate certain tasks. Tasks performed within this framework are the subject of a report to the Audit Committee like other tasks performed by Audit.

Organisation of an Audit function
When a Dexia Group entity exercises control over a subsidiary or, if there is no such control, when the supervisory authorities expressly so request, then an audit function is established in that subsidiary. If the creation of an audit function is not considered relevant, the parent company will perform the local audit function and if necessary a service level agreement (SLA) is concluded with the parent company.

Management of the Audit support line
In order to manage the support line, the Audit department of Dexia/Dexia Crédit Local ensures the appropriateness of the organisation of the internal audit in place in the Dexia Group as a whole and the quality of its operation.

The Audit department of Dexia/Dexia Crédit Local is responsible for:
- The Audit strategy and its proper implementation in all Dexia Group audit departments;
- The definition and application of a common methodology for analysing risks, performing tasks and monitoring recommendations made;
- The optimum allocation of competences within the function and determining the level of training required of auditors throughout the Group;
- The coordination and assessment of training programmes;
- The attribution and monitoring of the operating budget of each local audit department.

Relations with the supervisory authorities and statutory auditors
Internal audit maintains regular dialogue with the banking supervisory authorities and external auditors (statutory auditors) on subjects of common interest.

Internal audit is responsible for coordinating and centralising exchanges, whether incoming or outgoing, with the various banking supervisory authorities, whatever the support line concerned. Internal audit is also responsible for coordinating the inspection tasks of the various supervisory authorities. In this context, the General Auditor or the Head of Audit for the entity is the point of contact for the supervisory authorities. He coordinates the process of gathering data within the entity and the responses to inspection reports or to requests for additional information. Internal audit also monitors recommendations made by the supervisory authorities under the same conditions as for recommendations made by Internal audit.

In order to avoid any duplication of tasks, Internal audit maintains regular exchanges with the external auditors on internal control matters. These exchanges are aimed at sharing observations made by both parties on internal control matters and ensuring the complementary nature of the work carried out.

General overview of activity over the year 2016
In 2016, the tasks of Internal Audit related to all the Group's major activity lines: Assets ("De-leveraging & De-risking", "Asset Management for Local Public Sector France"), Funding and Markets ("Cash & Liquidity Management"), Risk ("Market Risk", "Business Continuity Plan"), Finance ("Asset / Liability Management", "Capital Management", "Consolidation"), General Secretariat ("Compliance Combating Money Laundering"), Operations and IT Systems (IT Project Management").

Head office audit services were provided to local audit teams at Dexia New York, Dexia Crediop, Dexia Kommunalbank Deutschland and Dexia Israel, particularly in performing tasks relating to compliance management (Compliance AML).

Contacts with the Dexia Group's various supervisors remained intense over the year 2016, particularly through regular meetings, in which Group Internal Audit was involved.

b. The Inspection unit

Role
The role of Inspection is to contribute, independently and objectively, to controlling fraud risks. It intervenes in awareness, prevention and dissuasion, detection and investigation actions and proposes and monitors corrective measures.

Organisation and governance
Inspection performs its tasks within the Internal Audit department and is responsible for the performance of its tasks in relation to the Group General Auditor.

Inspection performs these tasks for Dexia and Dexia Crédit Local, as well as for all the branches, subsidiaries and sub-subsidiaries depending on them, which do not have their own inspection function. The function is performed full-time by an inspector reporting to the Head of Internal Audit and Inspection, who in turn reports to the General Auditor. If necessary, the function is performed working closely with the Head of Internal Audit for the entity concerned.

An Inspection Charter sets out the fundamental principles governing the function, describing the objectives, roles, powers, duties and responsibilities, terms of operation and the basic rules governing it, including rules of professional ethics.

General overview of activity over the year 2016
In accordance with the principles set out in the Inspection Charter, the tasks performed by Inspection in 2016 related to awareness, prevention and detection of fraud, enquiries in relation to suspicions of fraud and, in support of the Legal department, data extraction related to questions from legal authority.

The unit's work was in particular aligned to subjects related to defending against cyber-crime, considering the multiplication and diversification of outside fraud attempts on Dexia staff: staff awareness and information, identification of fraud attempts and assistance to staff who have suffered such fraud attempts. Inspection also worked on assessing anti-fraud mechanisms (physical security and the management of movable assets) under an audit mission format.

2.1.8. The Dexia Group

The executive management body of the Dexia Group is the Management Board of the Group's parent company, Dexia.

The Dexia Management Board is responsible for the oversight and effective management of the Dexia Group and coordinating and monitoring the decisions made by the Board of Directors. The members of the Management Board of Dexia have been delegated specific Group-wide powers that they share amongst themselves.

After making significant progress in the implementation of the orderly resolution plan, particularly the sale of most of the operational entities, Dexia and its subsidiary Dexia Crédit Local have implemented a unified governance structure since 2013 which is adapted to the objectives set by the European Commission. While the legal structures remain in place for Dexia and Dexia Crédit Local, the Group's management has been unified and streamlined, with a common steering framework for the two main entities.

The composition of the Dexia and Dexia Crédit Local Management Boards is identical. They are composed as follows:
- Karel De Boeck, Chief Executive Officer;
- Véronique Hugues, Chief Financial Officer and Deputy Vice-President;
- Johan Bohets, Chief Risk Officer and Deputy Vice-President;
- Benoît Debroise, Head of Funding and Markets and Deputy Vice-President;
- Guy Cools, Head of Assets and Deputy Vice-President;
- Aline Bec, Chief Operating Officer and Deputy Vice-President.

The Compliance, Permanent Control and Legal functions report directly to the Chief Executive Officer.

2.2. Preparation and processing of accounting and financial information

CRBF Regulation 97-02 as amended, relating to internal control, stipulates in its section on accounting that the organisation put in place must guarantee the existence of a set of procedures referred to as the "audit trail". This audit trail must allow all accounting information provided to be tied back to an original supporting document, and vice versa. This is the basic policy on which the Dexia Crédit Local Group bases the organisation of its accounting function.

2.2.1. The financial statements

The Finance support line has the following five departments, reporting to the Chief Financial Officer: Finance Strategy, Product Control, IT Support, Financial Control and Finance Business Management.

The Financial Control department brings together the Accounting department and the transversal functions of Consolidation, Management Control, Tax, Norms and consolidated regulatory reporting.

The Accounting department sees to the production of basic accounting data and the statutory financial statements of Dexia, Dexia Crédit Local, and those of the subsidiaries which do not have their own Accounting departments.

The Accounting department also has a role of analysing and controlling the accounting data of branches, as part of the process of preparing the statutory accounts. In collaboration with the Consolidation and Management Control department, in particular it checks that the information provided is consistent and complies with Group rules.

More generally, the Accounting department has various means of information to perform its task of monitoring the accounting function in the broad sense. It is associated with committees which may be of interest in its task or receives the minutes. Through regular contact with its local correspondents, it ensures the proper dissemination of Group principles and proper interpretation of instructions given. It participates in the development of IT systems, so as to ensure that its specific requirements are taken into account.

a. Dexia Crédit Local statutory financial statements

For the preparation of the statutory financial statements, data is largely automatically posted to Dexia Crédit Local's accounting system by the upstream management systems used to manage transactions with customers and financial market counterparties as well as general operating expenses. When a transaction is recorded in any of these management systems, automated account mappings generate accounting entries automatically. These entries feed into the financial statements using a single accounting system that incorporates two sets of standards (French GAAP and EU IFRS [IFRS as adopted in the European Union]).

The exhaustiveness and accuracy of the source entries are guaranteed by the internal control systems of the financial control departments. The team in charge of enforcing standards and policies validates the automated charts of accounts under both sets of accounting standards, as well as the processing of complex or unusual transactions. The latter are occasionally entered manually, but they are then covered by specific internal control procedures.

First-level controls are performed by accounting teams specialising in each activity line, notably through the analysis of bank reconciliations and technical suspense accounts. Each month, all transactions recorded in the general ledger system are reconciled with those in the management systems, and tests of symmetry are performed on micro-hedged transactions. In order to verify the comparability of interest expense and income from one period to another, these items are measured against average outstanding amounts to calculate more easily comparable average rates. Finally, these departments also draft reports summarising the work performed and identifying any points requiring special attention or procedural improvements to be made in subsequent closings.

Additional checks are also performed by other units of the Accounting department during monthly, quarterly and annual closings. The work done by the local accounting teams is reviewed periodically to ensure that all controls included in a standardised list have been correctly performed.

The summary report issued by these accounting teams is also reviewed. The financial statements are reconciled with the management data at least once a quarter, and analytical tests are performed to verify the comparability of periods. Explanations of the main changes must be provided. During the past year, much of staff time was devoted to analysing these reconciliations. The automation of this work has made it possible to focus on the analytical phases, enabling the level of analysis to be maintained and the main changes explained.

The accounting entries generated during this process are subsequently compiled and aggregated using an automated, standardised process, to create the statutory financial statements of Dexia Crédit Local prepared under French GAAP and the company's contribution to the consolidated financial statements prepared under EU IFRS. The same is true of all subsidiaries whose accounting is performed at the Head Office. The Accounting department uses these financial statements, supplemented in some cases by data provided by the management systems, to establish the tables for the notes that form an integral part of the annual financial statements. The Accounting department then performs cross-checks between the summary reports and the notes to the financial statements. Throughout the entire process, reviews and tests of reasonableness and of compliance with the established procedures are conducted in accordance with the reporting authorities that have been established.

The same work is performed in each of the entities that make up the Dexia Crédit Local Group, although the degree of complexity may vary with the size of these entities and the activities in which they engage.

b. Dexia Crédit Local consolidated financial statements

In order to prepare their contribution to the Dexia Crédit Local consolidated financial statements, the consolidated entities reprocess their statutory financial statements established in line with local standards in order for them to comply with the accounting principles of the Dexia Crédit Local Group (IFRS accounting standards as adopted in the European Union). These principles are compiled in a consolidation manual sent to each Group entity. They are completed, on each accounting date, by operational instruction notes provided to the entities by the head office Consolidation service. These instruction notes present the improvements to be made to processes with a view to observations made over previous periods and detail the developments to be taken into account (systems, new data to be provided and so on) over the period.

The financial statements sent to the Group by the various entities are then consolidated and are subject to certain adjustments. The principal adjustments made by the Consolidation service relate to the elimination of reciprocal accounts and intragroup transactions (such as acquisitions/asset disposals and dividends). They also deal with the treatment of companies held by different Group entities.

When the consolidated financial statements have been finalised, they are submitted for review to the Chief Financial Officer who has them approved by the Management Board. They are then presented to the Audit Committee and signed off by the Board of Directors.

Some of the notes and appendices to the consolidated financial statements are not drawn up directly by the Financial Control department, but come from the following departments, such as Financial Strategy, the Risk department, the General Secretary or Human Resources.

The planning of the provision of this information and the final responsibility for the content of the consolidated financial statements are assumed by the Finance support line.

c. Publication of the Dexia Crédit Local financial statements

The financial statements are then incorporated into the annual report, which is equivalent to the registration document (document de référence) required by Article 212-13 of the General Regulations of the French Autorité des marchés financiers (AMF).`

This accounting and financial information is made public in several ways:

- The financial statements are announced in a financial notice and/or published in BALO, the French official journal of required publications;
- The annual report equivalent to the registration document is filed in electronic format with the AMF; it is also filed with the Clerk of the French Commercial Court and is posted on the Dexia Crédit Local website;
- The half-yearly financial report is filed electronically with the AMF and is posted on the Dexia Crédit Local website;
- As required by disclosure regulations, all annual and half-yearly reports are released through an AMF-certified distributor of financial news releases (Thomson Reuters).

The Accounting and Communication departments perform reciprocal control cross-checks to ensure the consistency of the accounting and financial information published and made available to the public.

2.2.2. Management information

The financial statements (balance sheet, off-balance-sheet, income statement, cash-flow tables and appendices) are not the only detailed elements of analysis which the Dexia Group sends to its shareholders, its investors and the public. They are completed by financial indicators, breakdowns and results analyses, outlooks and risk assessments, which are integrated in the annual report or submitted when presentations are made to financial analysts and investors.

Some of these elements are supplied directly by operational departments or by the risk control department. Their accuracy is guaranteed by the internal control system of the departments concerned.

The majority of financial indicators and in particular those necessitating a crossing or aggregation of data from different origins, the breakdown of figures available globally, or a reprocessing of account data in relation to management parameters, are provided by the Consolidation and Management Control department.

These indicators are elaborated on the basis of information processed directly from local IT systems, and those of international entities. They are summarised monthly in a report to the Dexia and Dexia Crédit Local Management Boards.

In the French and foreign entities with their own management control team, the monitoring of financial indicators and the analysis of results are guided locally in accordance with the same standards and the same principles, depending on the size, organisations and systems of each entity. These instructions are common throughout the Dexia Crédit Local Group.

The whole is guided, monitored and supervised by the Consolidation and Management Control department, which provides all the entities with standardised and secure collection tools, to make reliable and to optimise the information collection mechanism. Finally, the department aggregates everything.

The information aggregation process is performed in parallel with the consolidation process guided by the accounting functions. At each stage of the establishment of consolidated data, consistency controls are performed, based on the reconciliation of analytical and accounting information. This reconciliation is a vital element of internal control, to ensure the reliability of one and the others completed by a systematic analytical review of the principal items.

2.3. Risk Management

Banking generates four main types of risks: credit risk, market risk, transformation risk and operational risk (including legal risks).

Monitoring of all these risks is performed jointly by the appropriate committees and the Risk Management department, with the help of tools that it develops, in accordance with the guidelines established by the Management Board and all regulatory and supervisory constraints.

As regards the supervision of risks in the subsidiaries and branches, each entity has its own local risk management function. These structures are strictly independent of the front offices and report directly to the Dexia Crédit Local Risk Management department.

Each local risk management function has one or more correspondents in charge of managing operational risk and implementing the Basel reforms. Generally speaking, all of the risk management techniques used at the Dexia Crédit Local level are also used within each subsidiary and branch.

Dexia and Dexia Crédit Local pay special attention to tracking legal risks.

In addition to the general principles presented in point 2.1.3, the means used by Dexia Crédit Local to manage these risks, both on a day-to-day basis and under exceptional circumstances, are described below.

2.3.1. Credit risk monitoring

Credit risk represents the potential loss, materialised by the reduction in value of an asset or by the payment default, that Dexia Crédit Local may suffer as the result of deterioration in the solvency of a counterparty.

The credit risk department defines the Group's credit risk policy, which encompasses supervision of the processes for rating counterparties, analysing credit files and monitoring exposures within the Dexia Crédit Local Group. It also determines the impairments and collective provisions presented quarterly when the accounts are drawn up.

Along with the Risk Committee, the Management Board and the Transaction Committee, the following three committees meet on a quarterly basis:
• The **Watch-list Committee** supervises assets considered "sensitive", placed under watch, and decides on the amount of impairments set aside;
• The **Default Committee** screens and monitors counterparties in default by applying Group internal rules, in compliance with the regulatory framework;
• The **Rating Committee** ensures that internal rating processes are aligned with the established principles and that those processes are consistent across the Group's various entities.

2.3.2. Market risk monitoring

Market risk represents the Group's exposure to changes in market parameters, such as interest and exchange rates. Interest rate risk consists of structural interest rate risk and specific interest rate risk associated with a given credit counterparty. The latter arises from fluctuations in the credit spread on specific counterparties within a rating class. The foreign exchange risk represents the potential decrease in the value of assets arising from fluctuations in exchange rates against the euro, which is the reference currency in which the Dexia Crédit Local Group prepares its financial statements. The interest rate and foreign exchange risk of the positions within the banking portfolio are part of the transformation risk.

Market risk policy and management are in the hands of the Management Board. To facilitate operational management, a system of delegated authority has been put in place:
• The **Market Risk Committee** is responsible for market risk governance and standards. It defines the risk limits that form the general framework for the Group's risk policy, analyses risk results and positions and approves risk measurement methods. It meets on a monthly basis.
• The **Valuation and Collateral Monitoring Committee** meets quarterly to analyse indicators relating to collateral management, to decide on action plans for significant valuation differences and to monitor the valuation of structured products.

Under the aegis of the Management Board and specialist risk committees, the market risk department identifies, analyses and monitors risks and results (including financial instrument valuations) associated with market activities.

2.3.3. Transformation risk monitoring

Monitoring transformation risk involves monitoring the risk of loss associated with the transformation of the banking portfolio (as well as liquidity risk). Transformation risk arises when assets are refinanced by resources presenting a different maturity, indexation or currency. It includes structural risks associated with the financing of holdings with equity in foreign currencies. Liquidity risk measures Dexia Crédit Local's ability to deal with its current and future cash requirements, both on a discounted basis and in the event of a deterioration of the Group's environment, on the basis of a range of stress scenarios.

Asset and liability management is supervised by the Dexia Crédit Local Management Board, which meets on a quarterly basis to determine the global risk framework, set limits, guarantee the consistency of strategy and delegate operational implementation to local ALM committees. The Management Board approves asset and liability management transactions, and centralises and coordinates the decision-taking process concerning liquidity matters. It is periodically informed of the Group's liquidity position and its evolution and its cover by short, medium and long-term resources. It ensures that liquidity targets are met and contributes to elaborating strategies for funding and asset deleveraging.

Within the Risk activity line, a dedicated ALM Risk team is in charge of defining the risk framework within which management may be placed in the hands of the Financial Strategy team within the Finance activity line, of validating the models used to actually manage risk, and of monitoring exposures and checking compliance with Group standards. ALM Risk also defines the stresses to be applied to the various risk factors, validates the risk management approach adopted by the Finance activity line and ensures that it complies with the regulatory framework in force.

2.3.4. Monitoring of operational risk and IT systems security

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.

Operational risk represents the risk of financial or non-financial impacts arising from a shortcoming or failure in internal processes, personnel or systems, or external factors. This definition includes IT, legal and compliance risks.

The Management Board regularly monitors the evolution of the risk profile of the various Group activities and delegates the operational management of risk monitoring to the **Operational Risk Committee**. This committee examines the main risks identified and decides on the corrective actions to be taken. It validates measurement, prevention or improvement proposals in relation to the various elements of the mechanism. The Operational Risk Committee relies on committees dedicated to activity continuity and IT systems security, which examine and decide on actions to be taken to guarantee activity continuity and the implementation of a policy for IT systems security.

Insurance of operational risk

Dexia Crédit Local currently has traditional property and casualty insurance, including general hardware and facilities multi-risk, vehicle and third-party liability. All French subsidiaries are covered under these polices.

Dexia has taken out policies for the following risks: directors' and officers' liability for the members of the management bodies, third-party professional liability and so-called "comprehensive bank coverage", which covers fraud and the financial impact of damage to assets and/or documents. These guarantees also cover all Dexia Group entities, including Dexia Crédit local and the French and foreign entities controlled by the latter.

Legal risk monitoring

The Legal department performs six main functions:
• Legal support to front office activities;
• Management of pre-litigation and disputes;
• Management of divestments and reorganisations of the Group's companies;
• Coordination of governance;
• Management of the Group's compliance and permanent control.

The support line therefore plays a key role in preventing matters from being taken to litigation, anticipating changes in the law and ensuring compliance with the principles of corporate governance.

Within Dexia's revised orderly resolution plan, it has been decided to integrate the organisational structure of the General Secretariat by pooling the teams of Dexia Crédit Local and Dexia to promote, in particular, a common approach.

A specific reporting tool covering all the legal risks managed by the General Secretary, Legal and Compliance support line is presented to the Audit Committee every quarter to ensure the relevant and regular reporting of information.

2.4. Control and monitoring of internal controls

2.4.1. The Chief Executive Officer and the Management Board

The Chief Executive Officer, assisted by the Executive Vice-Presidents, performs a vital role in the assessment of internal control. They have access to several sources of information to enable them to accomplish all of their duties in this area. There are no potential conflicts of interest between the duties of the Chief Executive Officer or Executive Vice-Presidents with respect to Dexia Crédit Local and their personal interests or other duties.

The members of the Management Board have each been assigned operational responsibilities by business line or by function. They therefore have a comprehensive understanding of the constraints and opportunities in their respective fields of activity, and are thus able to define internal control procedures and to judge their effectiveness.

The most sensitive horizontal, Group-wide Committees are chaired by a member of the Management Board, who can subsequently summarise the work involved for all the members.

The Management Board has also implemented a system of delegation and reporting that requires the operation departments to present and approve the key indicators, through which it is able to judge the quality and smooth running of the internal control system.

Internal Audit is also a valued source of information for the Chief Executive Officer, the Executive Vice-Presidents and the Management Board. They receive all audit reports, which are discussed and commented on during meetings. They approve all recommendations and action plans. The General Auditor reports to the Management Board on the monitoring of audit recommendations. The Chief Executive Officer and Executive Vice-Presidents may also ask the Internal Audit department to perform assignments that are not scheduled in the annual audit plan on topics that they feel require immediate attention.

Both the Statutory Auditors, as part of their audit of the financial statements, and the regulators (in France, essentially the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and the Autorité des marchés financiers (AMF), as part of their inspection duties, also make recommendations in their reviews for improving specific internal control issues. The Management Board subsequently takes the necessary steps so that these recommendations are implemented as quickly as possible.

2.4.2. The Audit Committee and the Board of Directors

During the 2016 fiscal period, the Audit Committee implemented at Dexia level was delegated to assist the Board of Directors in carrying out its oversight of the management of Dexia Crédit Local. The Audit Committee focuses specifically on those procedures covering the preparation of the financial statements and is also responsible for managing relationships with the Statutory Auditors.

In accordance with the recommendations of the AMF, as part of its responsibilities, the Audit Committee:
• Analyses financial information, accounting procedures and compliance with legal, regulatory and statutory requirements;
• Examines, prior to their approval by the board and their publication, the quarterly, half-year and annual financial statements;
• Examines the findings, comments and recommendations of the Statutory Auditors and may suggest any additional assignments it finds appropriate;
• Ensures that appropriate internal controls exist and have been implemented;
• Ensures that all recommendations made by regulatory authorities and the Dexia Crédit Local rules of conduct are taken into account;
• Is notified of the long-term audit plan and the audit plan for the coming year, and of any changes that may be made during the year;
• Ensures the adequacy of the resources at the disposal of the Internal Audit department;
• Is informed of the work performed by the Internal Audit and Bank Inspection departments through internal control reports, audit plan progress reports and recommendation monitoring reports;
• Is consulted on all audit-related regulations in effect within Dexia Crédit Local;
• Reviews the situation as regards compliance, and is consulted on the rules relating to the integrity and professional ethics policy in force, particularly in terms of protecting the image of the bank and the Group;
• Is informed of permanent control work (excluding compliance);
• Makes recommendations concerning the Statutory Auditors proposed for appointment at shareholders' meetings.

The Audit Committee reports on its work and observations to the Board of Directors.

The Chairman of the Board of Directors of Dexia Crédit Local is copied on the Internal Audit department's business review, and has access to all audit reports. He may regularly query Dexia Crédit Local's Chief Executive Officer or Executive Vice-Presidents about internal control issues. Lastly, he has direct access to the General Auditor and may request audit assignments if he feels this is appropriate.

3. External control

3.1. Statutory auditors

The statutory auditors make regular checks on the financial reporting of the various entities and subsidiaries of the Dexia Group.

They are involved with the entire process of checking the financial and accounting information with a concern for efficiency and transparency. As part of their duties, they analyse the accounting procedures and assess the internal control systems necessary for reliably establishing the financial statements. They issue instructions to the statutory auditors of the entities and ensure their work is centralised. They organise summary meetings on the results of their audits and assess the interpretation of standards. Lastly, they check the consistency of accounting information between the management report and the financial statements. The performance of these duties enables them to obtain reasonable assurance that, considering the legal and regulatory provisions governing them, the annual financial statements give a true picture of the assets, financial position and results of the company and that the information given in the notes is appropriate. They issue an opinion on the Group's statutory and consolidated financial statements.

Under Article 21 of the company's articles of association, the shareholders' meeting appoints two principal statutory auditors and two substitute statutory auditors meeting the conditions provided by the law and the regulations.

The auditors are appointed for six financial years, their office expiring after the shareholders' meeting dealing with the financial statements for the sixth financial year.

The auditors have the functions and powers granted to them by the law. Their remuneration is set in accordance with the applicable regulatory provisions.

The mandates of the principal statutory auditors and the substitute statutory auditors were renewed at the shareholders' meeting held on 13 May 2014 for a term of six financial years to expire at the end of the shareholders' meeting dealing with the financial statements for the financial year which closes on 31 December 2019:
• Principal statutory auditors: Mazars and Deloitte & Associés;
• Substitute statutory auditors: Mr Charles de Boisriou and BEAS.

3.2. Remuneration of statutory auditors

This table gives a summary of the remuneration paid to the statutory auditors for their services in 2016 for Dexia Crédit Local.

	31/12/2016	
(in EUR thousands)	Mazars	Deloitte
Audit services		
• Statutory audit, certification, examination of parent company and consolidated financial statements	1,730	1,607
Sub-total	1,730	1,607
Other services	179	51
TOTAL	**1,909**	**1,658**

Robert de Metz
Chairman of the Board of Directors

Statutory Auditors' report prepared in accordance with article L. 225-235 of the French Commercial Code and dealing with the report of the Chairman of the Board of Directors

Financial year ended 31 December 2016

To the shareholders,

In our capacity as Statutory Auditors of DEXIA CREDIT LOCAL and in accordance with article L. 225-235 of the French Commercial Code, we hereby present our report dealing with the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the financial year ending December 31, 2016.
The Chairman is responsible for preparing and submitting for the approval of the Board of Directors, a report describing the internal control and risk management procedures implemented by the company and disclosing other information as required by Article L. 225-37 of the French Commercial Code dealing in particular with corporate governance.

Our own responsibility is to:

– Communicate to you any observations we may have as to the information contained in the Chairman's report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information; and
Attest that the report includes the other disclosures required by Article L. 22537 of the French Commercial Code. It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with the professional standards applicable in France.

Information relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information

OOur professional standards require the application of procedures designed to assess the fair presentation of the information contained in the Chairman's report and relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information.

Those procedures involve in particular:

Obtaining an understanding of the underlying internal control and risk management procedures in the area of the preparation and processing of financial and accounting information presented in the Chairman's report, and of the related documentation;

Obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation;

Determining if any major internal control weaknesses in the area of the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information relating to the company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of Directors prepared in accordance with article L. 225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the report of the Chairman of the Board of Directors includes the other disclosures required by article L. 225-37 of the French Commercial Code.

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Neuilly-sur-Seine and Courbevoie, March 28, 2017

French Original signed by the Statutory Auditors

MAZARS		DELOITTE & ASSOCIÉS	
Claire GUEYDAN-BRUN	Franck BOYER	Jean-Vincent COUSTEL	Pascal COLIN

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' meeting held to approve the financial statements for the year ended 31 December 2016

To the shareholders,

In our capacity as Statutory Auditors of your company, we hereby report to you on regulated agreements and commitments.

It is our responsibility to report to shareholders, based on the information provided to us, on the main terms and conditions of, as well as the reasons provided for, the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. Under the provisions of article R.225-31 of the French Commercial Code (Code de commerce), it is the responsibility of the shareholders to determine whether the agreements and commitments are appropriate and should be approved.

Our role is also to provide you with the information stipulated in Article R.225-31 of the French Commercial Code relating to the implementation during the past year of agreements previously approved by the shareholders' meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (Compagnie Nationale des Commissaires aux Comptes) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

Agreements and commitments submitted to the approval of the shareholders' meeting

Pursuant to Article L.225-38 of the French Commercial Code, we were not informed of any new agreements and commitments submitted to the approval of the shareholders 'meeting.

Agreements and commitments previously approved by shareholders' meeting

Pursuant to Article R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by shareholders' meetings of prior years, have remained in force during the year:

Agreement allowing DCL to use subsidiaries' receivables as collateral

Persons concerned:

Mr. Alain Clot, former director of DCL, Dexia Crediop and Dexia Sabadell, his term of office with DCL having terminated on 31 December 2013.

In order to reduce DCL's financing needs, it was decided to mobilize the assets of DCL and its subsidiaries that are not currently utilized, in secured funding arrangements, as collateral for financing or issues guaranteed by the States. DCL mobilized the subsidiaries' assets under market conditions throughout 2016:

As at 31 December 2016, the assets concerned totaled EUR 23.9 billion and comprised:

- EUR 23,3 billion of DCL receivables ;
- EUR 601 million of DCL leasing subsidiary receivables.

These transactions were authorized by your Board of Directors on 23 February 2012 and have not resulted in the signature of any formal agreements.

State guarantee agreement

Persons concerned:

Mr. Robert de Metz, director of both DCL and Dexia S.A. (hereafter "DSA"),

Mr. Karel De Boeck, director of both DCL and DSA,

Mr. Claude Piret, director of DCL and management board member of DSA,

Mr. Koenraad Van Loo, director of both DCL and DSA,

Mr. Philippe Rucheton, former director of both DCL and DSA, his term of office with DCL having terminated on 31 December 2013.

On 28 December 2012, the European Commission advised its agreement to the revised orderly resolution plan for the Dexia Group submitted by the Belgian, French and Luxembourg States on 14 December 2012. This approval resulted in the implementation of the arrangements for the tripartite guarantee granted by the Belgian, French and Luxembourg States, capped at EUR 85 billion, based on the following allocation key: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg.

The guarantee fee on the outstanding debt issued will be calculated based on an annual rate of 5 basis points compared with 90 basis points previously under the temporary guarantee. In 2016, the cost of the guarantee for DCL amounted to EUR 31,5 million.

This agreement was authorized by your Board of Directors on 19 December 2012.

Guarantee agreement between DCL and Dexia Crediop

Persons concerned:

Mr. Alain Clot, former director of both DCL and Dexia Crediop, his term of office with DCL having terminated on 31 December 2013.

As part of the support for its subsidiary Dexia Crediop, DCL granted a first demand guarantee for EUR 75 million, expiring in 2023 at the earliest.

In accordance with the guarantee eligibility conditions set by the Bank of Italy, DCL’s remuneration was set at 0.8%.

This agreement was approved by the shareholders’ meeting of 7 May 2013, based on the Statutory Auditors’ special report of 2 April 2013.

As at 31 December 2012, following the decrease in interest rates, exposure to the Terna counterparty mechanically increased, requiring an increase in the guarantee granted by DCL in order to comply with the large exposures limit set by the Italian regulator. An amendment to the initial agreement increasing the amount of the commitment to EUR 100 million was therefore signed, without the prior authorisation of the Board of Directors, in order to react as quickly as possible to ensure compliance with regulatory ratios at the year end. This amendment was approved by your shareholders’ meeting of 13 May 2014.

This guarantee is drawn in full.

DCL recorded commission income of EUR 0.8 million in 2016.

Agreement for the sale of the Société de Financement Local (hereafter “SFIL”) shares

Persons concerned:
Messrs. Philippe Rucheton and Alain Clot, former directors of both DCL and Dexia Municipal Agency (hereafter “DMA”), their terms of office with DCL having both terminated on 31 December 2013.

The agreement for the sale of SFIL shares by DCL to the French State, Caisse des Dépôts et Consignations and Banque Postale was signed on 23 January 2013 in the presence of DMA and SFIL, for the purpose of enabling the parties to take advantage of Articles 8 “Indemnification” and 9 “Other commitments of the parties” of said agreement.

This agreement was authorized by your Board of Directors on 15 January 2013 and had no impact in 2016.

DCL sold these shares for EUR 1 on 28 January 2013.

Agreement for the management of disputes relating to disputed loans

Persons concerned:
Messrs. Philippe Rucheton and Alain Clot, former directors of both DCL and DMA, their terms of office with DCL having both terminated on 31 December 2013.

On 31 January 2013, DMA, DCL and SFIL signed an agreement for the management of disputes relating to disputed loans. The purpose of this agreement is to establish the procedures for managing all judicial (other than criminal) and administrative proceedings relating to loans recorded on DMA’s balance sheet on the date of sale of SFIL shares until maturity of all such loans.
This agreement was authorized by your Board of Directors on 15 January 2013 and had no impact in 2016.

EUR 100 million subordinated loan agreement

Persons concerned:
Mr. Claude Piret, director of both DCL and DSA, his term of office having terminated on 14 October 2016,

Mr Philippe Rucheton, former director of both DCL and Dexia Municipal Agency (hereafter “DMA”), his term of office with DCL having terminated on 31 December 2013.

As of 30 May 2014, DCL and Dexia Sabadell signed a EUR 100 million deeply subordinated loan contract, maturing June 2022. The remuneration is set on a fixed rate of 3.6% + floating rate (capped at 7.4%), based on Dexia Sabadell net profits.

This agreement was authorised by your Board of Directors on 13 May 2014.

DCL recognised interest income of EUR 3.3 million in 2016 in respect of this loan agreement.

Second EUR 150 million subordinated loan agreement granted on 5 December 2014

Persons concerned:
Mr. Claude Piret, director of both DCL and DSA, his term of office having terminated on 14 October 2016,

As of 5 December 2014, DCL and Dexia Sabadell signed a EUR 150 million deeply subordinated loan contract, maturing June 2022. The remuneration is set on a fixed rate of 3% + floating rate (capped at 8%), based on Dexia Sabadell net profits.

This agreement was authorised by your Board of Directors on 13 November 2014.

DCL recognised interest income of EUR 4.6 million in 2015 in respect of this loan agreement.

Intra-group netting agreement between DCL, Dexia SA/NV (hereafter “DSA”), Banque Internationale à Luxembourg S.A. (hereafter “BIL”), Belfius Banque SA/NV (hereafter “Belfius”) and Dexia Crediop SpA

Persons concerned:
Mr. Jean-Luc Dehaene, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on 29 June 2012,
Mr. Pierre Mariani, former director of DCL, DSA, BIL and DBB, his term of office with DCL having terminated on 2 August 2012,
Mr. Pascal Poupelle, former director of DCL and Crediop, his term of office with DCL having terminated on 31 December 2010,
Mrs. Francine Swiggers, former director of DCL, DSA and DBB, her term of office with DCL having terminated on 10 November 2012.

The Dexia Group Master Netting Agreement (hereafter “DGMNA”) was signed on 2 November 2009 between DSA, BIL, Belfius, DCL and Dexia Crediop SpA.
The DGMNA enables the parties to the agreement to net amounts due under transactions governed by different agreements, such as in particular the ISDA Master Agreements or other financial instrument framework agreements (hereafter

the “Principal Agreements”). The DGMNA primarily seeks to enable netting in the event of default by one of the parties and therefore only enables netting when the transactions governed by the Principal Agreements are accelerated, terminated, liquidated or cancelled (hereafter “Close Out”).

When one of the parties is in default as defined by the DGMNA, each of the other parties not in default may choose to Close Out all the transactions governed by the Principal Agreements to which said non-defaulting party is party.

BIL and Belfius are no longer parties of the DGMNA since respectively 29 January 2014 and 2 November 2015.

This agreement was approved by the shareholders’ meeting of 19 May 2015, based on the Statutory Auditors’ special report of 31 March 2015.

Neuilly-sur-Seine and Courbevoie, March 28, 2017

French Original signed by the Statutory Auditors

MAZARS		DELOITTE & ASSOCIÉS	
Claire GUEYDAN-BRUN	Franck BOYER	Jean-Vincent COUSTEL	Pascal COLIN

Proposals for resolutions to be adopted at the combined shareholders' meeting on 16 May 2017

In its capacity as extraordinary shareholders' meeting

First resolution: change of address of the registered office following sale of the Dexia Tower

Further to the company having sold the Dexia Tower, the mention of this term in the address of the registered office of Dexia Crédit Local will be changed as follows:
"1, passerelle des Reflets
Tour CBX La Défense 2
92913 La Défense Cedex"

Second resolution: amendment of the articles of association

In the context of bringing the company's articles of association into line with the provisions of Title II of Order 2014-948 of 20 August 2014 on governance and operations affecting the capital of companies with public-sector participating interests, as ratified and amended by Act No. 2015-990 of 6 August 2015, the extraordinary shareholders' meeting takes formal note of the Board of Directors' decision of 15 March 2017, taken in application of Article 34 of Order 2014-948 of 20 August 2014, ratified and amended by Act No. 2015-990 of 6 August 2015, to render the provisions of this Order relating to governance (Title II) applicable to the company at the end of this shareholders' meeting, the first one held after 1 January 2017, and decides on the required amendment of the articles of association. In order for the company's articles of association to be in compliance with Title II of the aforesaid Order, the extraordinary shareholders' meeting decides to amend Articles 1 and 13 of the articles of association as follows:

"Article 1 – Form of the company"
Among the owners of the shares below that have been created and all those that may subsequently be created, a public limited company is incorporated which is governed by the legislative and regulatory provisions applicable to trading companies, in particular Articles L 210-1 *et seq.* of the French Commercial Code insofar as no departures are made from these by more specific provisions such as, in particular, Order No. 2014-948 of 20 August 2014.

Being a credit institution carrying out bank operations as part and parcel of its regular profession, this company is also governed by Articles L. 511-1 *et seq.* of the Monetary and Financial Code, and by these articles of association. The provisions of Title II of Order 2014-948 of 20 August 2014, as ratified and amended by Act No. 2015-990 of 6 August 2015, are applicable to this company."

"Article 13 – Board of Directors – Composition"
The company is run by a Board of Directors of which the maximum number of members is established by law. The members of the Board of Directors are appointed and may be removed from office by the shareholders' meeting.

The number of board members aged 75 or over may not represent more than one third of the board members in office. When this proportion is exceeded, the oldest of these members is considered to have relinquished his post automatically.

The term of office of all board members aged 75 or over will have to be confirmed every year by the ordinary shareholders' meeting. Failing such a confirmation, the person in question shall be considered to have relinquished his post automatically.

No person may be appointed as a member of the Board of Directors of a credit institution if he is the subject of incompatibilities, disqualifications or prohibitions banning him from fulfilment of these duties.

A legal entity may be appointed to the Board of Directors. When it is appointed it is obliged to designate a permanent representative who is subject to the same conditions and obligations and incurs the same civil and criminal liability as if he were a board member in his own name, without prejudice to the joint and several liability of the legal entity he is representing. When the legal entity removes its representative from office, it is obliged simultaneously to provide for the latter's replacement."

Third resolution: powers

The extraordinary shareholders' meeting grants all powers to the bearer of an original, a copy or an extract of these minutes with a view to the fulfilment of any formalities pertaining to the lodging and publication of documents for which provision is made in the law.

In its capacity as ordinary shareholders' meeting

First resolution: approval of the annual financial statements

After having had the Board of Directors' report, the report by the chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the annual financial statements as at 31 December 2016 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a negative result of EUR 216,780,648.53.

The ordinary shareholders' meeting approves the overall amount of the non-deductible expenses and charges for the profits subject to corporation tax (Article 39 of the General Tax Code), amounting to EUR 37,349, which has not brought about additional corporation tax bearing in mind the tax loss for the 2016 financial year.

Second resolution: approval of the consolidated financial statements

After having had the Board of Directors' report, the report by the chairman of the Board of Directors and the Auditors' report read out, the ordinary shareholders' meeting approves the consolidated financial statements as at 31 December 2016 as they have been presented to it, with all the operations reflected by these financial statements or mentioned in the aforesaid reports, and showing a net income group-share of EUR 441,817,461.

Third resolution: approval of regulated agreements and commitments

After having had the Auditors' special report on regulated agreements and commitments referred to in Article L. 225-38 of the French Commercial Code read out, the ordinary shareholders' meeting approves the regulated agreements and commitments referred to therein under the conditions laid down in Article L. 225-40 of the same Code.

Fourth resolution: final discharge granted to the company's authorised representatives

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the company's authorised representatives in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2016.

Fifth resolution: final discharge granted to the Chief Executive Officer and to the Executive Vice-Presidents

Further to approval of the previous resolutions, the ordinary shareholders' meeting grants full and unreserved discharge to the Chief Executive Officer and to the Executive Vice-Presidents in respect of fulfilment of their mandate with regard to the financial year closed on 31 December 2016.

Sixth resolution: appropriation of the profit/loss

The ordinary shareholders' meeting decides to charge the negative result for the financial year, amounting to EUR -216,780,648.53, in its entirety to the retained earnings/losses account. Once this loss amount has been charged, the retained earnings/losses account will show a negative figure of EUR -1,034,432,852.55.
In accordance with Article 243b of the General Tax Code, the shareholders' meeting recalls that no dividend has been paid during the previous three financial years.

Seventh resolution: auditing of the financial statements

In accordance with the provisions of Article L. 822-14 of the French Commercial Code, the ordinary shareholders' meeting formally records the fact that the annual and consolidated financial statements for the financial year closed on 31 December 2016 have been audited by the Auditors:

- Mr Franck Boyer and Mrs. Claire Gueydan-Brun, partners, representing the company Mazars, on the one hand, and
- Mr Pascal Colin and Mr Jean-Vincent Coustel, partners, representing the company Deloitte & Associés, on the other.

Eighth resolution: salaries report

In accordance with Article L. 225-37-2 of the French Commercial Code, the ordinary shareholders' meeting approves the principles and criteria governing the determination, distribution and apportionment of fixed, variable and exceptional elements making up the total pay and benefits of any kind attributable to the chairman, chief executive officer and deputy chief executives on account of their mandate as described in the salaries report that constitutes an integral part of the annual report.

Ninth resolution: opinion as to the remuneration awarded to the Chief Executive Officer and to the Executive Vice-Presidents

The shareholders' meeting, consulted in application of the AFEP-MEDEF Code, issues a favourable opinion as regards the components of the remuneration payable or granted to Wouter Devriendt, on account of his term of office as director and his position as Chief Executive Officer, Véronique Hugues and Johan Bohets, on account of their terms of office as directors and their positions as Executive Vice-Presidents, and to Aline Bec, Benoît Debroise and Guy Cools, on account of their positions as Executive Vice-Presidents as these appear in the annual report serving as a registration document, in the section "Remuneration of the Chief Executive Officer and of the Executive Vice-Presidents", submitted by the Board of Directors in respect of the financial year closed on 31 December 2016.

Tenth resolution: opinion on the overall wage bill

In application of Article L. 511-73 of the Monetary and Financial Code, the ordinary shareholders' meeting issues a favourable opinion as to the overall wage bill for pay awarded to the persons mentioned in Article L. 511-71 of said Code during the financial year closed on 31 December 2016, which amounts to EUR 13,800,085 (fixed salary and any bonuses).

This wage bill thus covers remuneration paid in 2016 to the company's managers and other members of staff of the company and its (international) subsidiaries who are considered, in accordance with the pay policy applicable to the whole of the Dexia Group, as having a significant impact on the Group's risk profile on account of their position and/or the amount of their pay.

This amount includes the Chief Executive Officer's pay and the Executive Vice-Presidents' pay awarded by Dexia exclusively in consideration of their mandate within the parent company.

Eleventh resolution: re-election of a director

In accordance with the provisions of Article L.225-18 of the French Commercial Code, the ordinary shareholders' meeting decides to re-elect to the post of director Mr Alexandre De Geest, born on 5 February 1971, of Belgian nationality and having his official place of residence at Avenue Olieslagers 7, 1150 Brussels, Belgium, further to his term of office coming to an end, with the new term of office to run up to the shareholders' meeting called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Twelfth resolution: re-election of a director

In accordance with the provisions of Article L.225-18 of the French Commercial Code, the ordinary shareholders' meeting decides to re-elect to the post of director Mr Bart Bronselaer, born on 6 October 1967, of Belgian nationality and having his official place of residence at Sint Martinusberg 11, 3360 Bierbeek, Belgium, further to his term of office coming to an end, with the new term of office to run up to the shareholders' meeting called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Thirteenth resolution: end of three directorships and appointments on the basis of Order 2014-948 of 20 August 2014

In accordance with the provisions of Title II of Order 2014-948 of 20 August 2014, ratified and amended by Act No. 2015-990 of 6 August 2015, and further to the Board of Directors' decision of 15 March 2017 taken in application of Article 34 of said Order, the ordinary shareholders' meeting decides to take formal note of the end of the directorships of Ms Lucie Muniesa, Mr Corso Bavagnoli and Mr Thierry Francq, who had previously been appointed on the basis of Article 139 of Act 2001-420 of 15 May 2001, the so-called "NRE Act". On the grounds of Article 4 of Order 2014-948, the shareholders' meeting decides to appoint the French State as director with the capacity of a legal entity. At the State's proposal, on the grounds of Article 6.II of Order 2014-948, the shareholders' meeting decides to appoint Mr Corso Bavagnoli and Mr Thierry Francq as directors with effect as of the end of the shareholders' meeting, for a period of four years, i.e. until the ordinary shareholders' meeting to be held in 2021 and called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Fourteenth resolution: appointment of a director

In accordance with the provisions of Article L. 225-18 of the French Commercial Code, the ordinary shareholders' meeting decides to appoint as director Mrs. Véronique Tai, of Belgian nationality and resident at Avenue Edmond Parmentier 163, 1150 Woluwe Saint-Pierre, Belgium, with effect as of the end of the shareholders' meeting, for a period of four years, i.e. until the ordinary shareholders' meeting to be held in 2021 and called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Fifteenth resolution: appointment of a director

In accordance with the provisions of Article L. 225-18 of the French Commercial Code, the ordinary shareholders' meeting decides to appoint as director Mrs. Martine De Rouck, of Belgian nationality and resident at Kleine Geeststraat 57, 1933 Sterrebeek, Belgium, with effect as of the end of the shareholders' meeting, for a period of four years, i.e. until the ordinary shareholders' meeting to be held in 2021 and called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Sixteenth resolution: appointment of a director

In accordance with the provisions of Article L. 225-18 of the French Commercial Code, the ordinary shareholders' meeting decides to appoint as director Mrs. Aline Bec, of French nationality and resident at 10 route de Croissy, 78110 Le Vésinet, France, with effect as of the end of the shareholders' meeting, for a period of four years, i.e. until the ordinary shareholders' meeting to be held in 2021 and called to rule on the financial statements pertaining to the financial year closed on 31 December 2020.

Seventeenth resolution: powers

The ordinary shareholders' meeting grants all powers to the bearer of an original, a copy or an extract of these minutes with a view to the fulfilment of any formalities pertaining to the lodging and publication of documents for which provision is made in the law.

Consolidated Financial Statements as at 31 December 2016

Consolidated balance sheet

ASSETS (in EUR million)		Note	31/12/2015	31/12/2016
I.	Cash and central banks	2.0	4,835	4,222
II.	Financial assets at fair value through profit or loss	2.1 & 4.1	20,175	17,780
III.	Hedging derivatives	4.1	6,672	6,830
IV.	Financial assets available for sale	2.2	22,137	16,548
V.	Interbank loans and advances	2.3	7,433	7,109
VI.	Customer loans and advances	2.4	127,484	118,882
VII.	Fair value revaluation of portfolio hedges		1,696	1,750
VIII.	Financial assets held to maturity	2.5	199	1,918
IX.	Current tax assets	2.6	39	28
X.	Deferred tax assets	2.6	35	32
XI.	Accruals and other assets	2.7	38,339	36,880
XII.	Non current assets held for sale		12	0
XV.	Tangible fixed assets	2.8	292	15
XVI.	Intangible assets	2.9	26	32
TOTAL ASSETS			**229,374**	**212,026**

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

LIABILITIES (in EUR million)		Note	31/12/2015	31/12/2016
I.	Central banks	3.0	15,932	690
II.	Financial liabilities at fair value through profit or loss	3.1 & 4.1	22,778	18,675
III.	Hedging derivatives	4.1	29,978	33,796
IV.	Interbank borrowings and deposits	3.2	49,569	40,850
V.	Customer borrowings and deposits	3.3	9,399	10,778
VI.	Debt securities	3.4	91,532	98,524
VII.	Fair value revaluation of portfolio hedges		170	100
VIII.	Current tax liabilities	3.5	2	7
IX.	Deferred tax liabilities	3.5	88	58
X.	Accruals and other liabilities	3.6	6,108	4,434
XII.	Provisions	3,7	229	264
XIII.	Subordinated debt	3,8	492	482
	Total Liabilities		**226,277**	**208,658**
XIV.	**Equity**	3,9	**3,097**	**3,368**
XV.	Equity, Group share		2,724	2,997
XVI.	Capital stock and related reserves		2,215	2,465
XVII.	Consolidated reserves		5,075	5,349
XVIII.	Gains and losses directly recognised in equity		(4,893)	(5,259)
XIX.	Net result of the period		327	442
XX.	Minority interests		373	371
TOTAL LIABILITIES AND EQUITY			**229,374**	**212,026**

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

Consolidated statement of income

(in EUR million)		Note	31/12/2015	31/12/2016
I.	Interest income	5.1	10,881	10,127
II.	Interest expense	5.1	(10,494)	(9,818)
III.	Commission income	5.2	20	17
IV.	Commission expense	5.2	(16)	(17)
V.	Net gains (losses) on financial instruments at fair value though profit or loss	5.3	523	275
VI.	Net gains (losses) on financial assets available for sale	5.4	67	115
VII.	Other income	5.5	45	52
VIII.	Other expenses	5.6	(44)	(40)
IX.	**NET BANKING INCOME**		**982**	**711**
X.	Operating expenses	5.7	(429)	(395)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	5.8	(22)	(15)
XII.	**GROSS OPERATING INCOME**		**531**	**301**
XIII.	Cost of risk	5.9	(175)	138
XIV.	**OPERATING INCOME**		**356**	**439**
XVI.	Net gains (losses) on other assets	5.10	14	56
XVIII.	**NET RESULT BEFORE TAX**		**370**	**495**
XIX.	Income tax	5.11	(37)	(54)
XXI.	**NET INCOME**		**333**	**441**
XXII.	Minority interests		6	(1)
XXIII.	**NET INCOME, GROUP SHARE**		**327**	**442**
	Earnings per share, Group share (in EUR)	5.12		
	Basic		1.46	1.75
	Diluted		1.46	1.75

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(in EUR million)	31/12/2015			31/12/2016		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
NET INCOME			**333**			**441**
Elements reclassified or likely to be subsequently reclassified in net income						
Cumulative translation adjustments	100		100	35		35
Revaluation of financial assets available for sale or reclassified in loans and advances or in held to maturity financial assets	730	(10)	720	(305)	21	(284)
Revaluation of hedging derivatives	224		224	(195)		(195)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans	7		7	(3)		(3)
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**1,061**	**(10)**	**1,051**	**(468)**	**21**	**(447)**
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY			**1,384**			**(6)**
of which, Group share			1,356			(4)
of which, Minority interests			28			(2)

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(in EUR million)	Capital stock and related reserves				Consolidated reserves	Gains and losses directly	
	Capital	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and receivables or in assets held to maturity, net of taxes	Change in fair value of cash flow hedges, net of taxes
AS AT 31 DECEMBER 2014	**224**	**1,991**	**0**	**2,215**	**5,512**	**(4,543)**	**(1,447)**
Movements during the period							
Changes in capital				0			
Appropriation of net income 2014					(478)		
Subtotal of shareholders' related movements	**0**	**0**	**0**	**0**	**(478)**		
Translation adjustments						0	0
Changes in fair value of financial assets available for sale, through equity						533	
Changes in fair value of derivatives through equity							252
Changes in fair value of financial assets available for sale or reclassified in loans and advances, through profit or loss						175	
Changes in fair value of derivatives through profit or loss							(29)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognized in equity						708	223
Net income for the period							
Other variations [1]					41		
AS AT 31 DECEMBER 2015	**224**	**1,991**	**0**	**2,215**	**5,075**	**(3,835)**	**(1,224)**
Adjustment on opening equity[2]					**(53)**		**79**
AS AT 01/01/2016	**224**	**1,991**	**0**	**2,215**	**5,022**	**(3,835)**	**(1,145)**
Movements during the period							
Changes in capital[3]	55	195		250			
Appropriation of net income 2015					327		
Subtotal of shareholders' related movements	**55**	**195**		**250**	**327**		
Translation adjustments							
Changes in fair value of financial assets available for sale, through equity						(575)	
Changes in fair value of derivatives through equity							(181)
Changes in fair value of financial assets available for sale or reclassified as loans and advances or in assets held to maturity, through profit or loss						295	.
Changes in fair value of derivatives through profit or loss							(13)
Changes in actuarial gains and losses on defined benefit plans							
Subtotal of changes in gains and losses directly recognized in equity						**(280)**	**(194)**
Net income for the period							
AS AT 31 DECEMBER 2016	**279**	**2,186**	**0**	**2,465**	**5,349**	**(4,115)**	**(1,339)**

(1) The positioning of cancellation of the results on internal transfers has been reviewed in 2015. For the amount still to be amortized as at 31 December 2014, mainly related to the cancellation of internal results between companies partially owned by third parties and fully owned companies, it generated a variation of EUR +37 million in the Group's reserves, EUR -2 million in Translation adjustments and EUR - 9 million in Minority interests. The net residual amount in reserves of EUR +25 million comes from the impact of the modification on deferred taxes. Internal transfers of 2015 between companies partially owned by third parties and fully owned companies generated an amount of EUR +6 million in Group share and EUR -6 million in Minority interests.

(2) As a result of errors in the past, opening equity has been reviewed for a net amount of EUR -53 million. This include EUR - 79 million, representing the amount of the cash flow hedge reserve related to transactions in the past and for which there isn't any longer justification for future transactions and also EUR +26 million, following a wrong representation in the past of a currency-denominated transaction that matured in 2016.

(3 The Extraordinary Sharehoders' Meeting of 28 June 2016 decided a capital increase in cash by the issuance of 55 555 556 new shares maintaining the preferential susbscription rights of the shareholders.

The notes on pages 84 to 148 are an integral part of those consolidated financial statements.

recognised in equity			Net income, Group share	EQUITY, GROUP SHARE	Minority interests			EQUITY
Actuarial gains and losses on defined benefit plans	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
(9)	79	(5,920)	(478)	1,329	399	(38)	361	1,690
				0				0
			478	0				0
			478	**0**				**0**
0	93	93		93		7	7	100
		533		533		13	13	546
		252		252		0	0	252
		175		175		0	0	175
		(29)		(29)		0	0	(29)
5		5		5		1	1	6
5	**93**	**1,029**		**1,029**		**21**	**21**	**1,050**
		0	327	327	6		6	333
	(2)	(2)		39	(15)		(15)	24
(4)	**170**	**(4,893)**	**327**	**2 724**	**390**	**(17)**	**373**	**3,097**
		79		**26**				**26**
(4)	**170**	**(4,814)**	**327**	**2,750**	**390**	**(17)**	**373**	**3,123**
								250
			(327)					
			(327)	**250**				**250**
	32	32		32		4	4	36
		(575)		(575)		(5)	(5)	(580)
		(181)		(181)				(181)
		295		295		1	1	296
		(13)		(13)				(13)
(3)		(3)		(3)		(1)	(1)	(4)
(3)	32	**(445)**		**(445)**		**(1)**	**(1)**	**(446)**
			442	442	(1)		(1)	441
(7)	**202**	**(5,259)**	**442**	**2,997**	**389**	**(18)**	**371**	**3,368**

Consolidated cash flow statement

(in EUR million)	31/12/2015	31/12/2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net income after income taxes	333	441
Adjustments for:		
- Depreciation, amortization and other impairment	22	15
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	196	(240)
- Net (gains) or losses on investments	(32)	(56)
- Net increases (net decreases) in provisions	(111)	24
- Unrealized (gains) or losses	(489)	(211)
- Deferred taxes	41	(9)
- Other adjustments		
Changes in operating assets and liabilities	(58)	(364)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(98)**	**(400)**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(23)	(19)
Sale of fixed assets	50	331
Acquisitions of unconsolidated equity shares	(4)	0
Sales of unconsolidated equity shares	37	48
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**60**	**360**
CASH FLOW FROM FINANCING ACTIVITIES		
Issuance of new shares	0	250
Reimbursement of subordinated debts	(9)	(5)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(9)**	**245**
NET CASH PROVIDED	**(47)**	**205**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**5,052**	**5,326**
Cash flow from operating activities	(98)	(400)
Cash flow from investing activities	60	360
Cash flow from financing activities	(9)	245
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	321	33
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**5,326**	**5,564**
ADDITIONAL INFORMATION		
Income tax paid	(9)	(2)
Dividends received	2	13
Interest received	11,113	10,246
Interest paid	(11,097)	(10 064)

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents include the following balances with initial maturities of less than 90 days.

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Cash and central banks (note 2.0)	4,835	4,222
Interbank loans and advances (note 2.3)	491	1,342
TOTAL	**5,326**	**5,564**

b. Of which restricted cash

(in EUR million)	31/12/2015	31/12/2016
Mandatory reserves[1]	184	293
TOTAL	**184**	**293**

(1) Minimum required reserve deposits at the European Central Bank (ECB) or other central banks.

The notes on pages 84 to 148 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies and valuation methods, ownership interest in subsidiaries and other entities, significant items included in the statement of income and post-balance-sheet events

1.1. Accounting policies and valuation methods

GENERAL INFORMATION

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour Dexia La Défense 2 -1, Passerelle des Reflets, 92913 La Défense.

These consolidated financial statements were authorised for issue by the Board of Directors on 15 March 2017.

NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The common used abbreviations below are:
- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1.1.1. BASIS OF ACCOUNTING

1.1.1.1. General

Dexia Crédit Local's consolidated financial statements are prepared in accordance with the IFRS adopted by the EU.

The European Commission published Regulation EC 1606/2002 on 19 July 2002, requiring listed groups to apply IFRS as from 1 January 2005. This regulation has been updated several times since 2002.

Dexia Crédit Local's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2016, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits.

Our accounting principles include mainly elements where an IFRS text allows the possibility of choice.

The consolidated financial statements of Dexia Crédit Local as at 31 December 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions underlying the business plan for the resolution of the Dexia Group, listed below.

• The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan.

In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

The business plan revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, but at this stage do not raise questions as to the nature and the fundamentals of the resolution.

• The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

• It moreover assumes that Dexia Crédit Local will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

From this perspective, since validation of the orderly resolution plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled Dexia Crédit Local to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia Crédit Local has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

(1) Deposits or financial instruments posted by Dexia and Dexia Crédit Local to their counterparties in order to secure obligations under interest rate or currency swaps.

• It is in particular exposed to the evolution of accounting and prudential rules.
• The financial characteristics of Dexia and Dexia Crédit Local since their entry in resolution do not allow them to ensure compliance with certain regulatory ratios over time.
Dexia and Dexia Crédit Local are also sensitive to the evolution of their macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia to their derivatives counterparties (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of regulatory capital.
• Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
The consolidated financial statements are presented in millions of euro (EUR) unless otherwise stated.

1.1.1.2. Accounting estimates and judgements

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgement. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.
Judgements are made principally in the following areas:
• classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option" for measurement purposes based on instrument's characteristic and Dexia Crédit Local's intention (see 1.1.6.);
• financial instruments not quoted in an active market are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc (see 1.1.7.);
• determination of fair value for financial instruments measured at fair value by means of valuation techniques (see 1.1.7.);
• determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10) (see 1.1.3.);
• identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5) (see 1.1.15.);
• hedge accounting (see 1.1.10., 1.1.11.);
• existence of a present obligation with probable outflows in the context of litigations (see 1.1.22.);
• identification of impairment triggers (see 1.1.6.5.).
These judgements are entered in the corresponding sections (as referenced above) of the accounting policies.

Estimates are principally made in the following areas:
• determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale (see 1.1.6.5., 1.1.15.);
• the measurement of hedge effectiveness in hedging relations (see 1.1.10., 1.1.11.);
• determination of the market value correction to adjust for market value and model uncertainty (see 1.1.7.);
• determination of the useful life and the residual value of property, plant and equipment, and intangible assets (see 1.1.13., 1.1.14.);
• actuarial assumptions related to the measurement of employee benefits obligations and plan assets (see 1.1.21., 3.7.);
• estimate of future taxable profit for the recognition and measurement of deferred tax assets (see 1.1.20.).
As mentioned in the note 1.3. Significant items included in the statement of income, in 2016, in order to be in line with market practices, Dexia Crédit Local adjusted its methodology of valuation of non-collateralised derivative instruments (discounting curve and the Induced effects on the Funding Valuation Adjustment (FVA)). This change in the method of calculation was recognised as an expense in Dexia Crédit Local's financial statements as at 31 December 2016 (see note 5.3. Net gains (losses) on financial instruments at fair value through profit or loss).

1.1.2. CHANGES IN ACCOUNTING POLICIES SINCE THE PREVIOUS ANNUAL PUBLICATION THAT MAY IMPACT DEXIA CREDIT LOCAL GROUP

1.1.2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2016

• Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions". This amendment does not have a material impact on Dexia Crédit Local's financial statements, due to limited impact of defined benefit plans at Group's level.
• Annual Improvements 2010-2012 and 2012-2014 cycles, which are a collection of amendments to existing IFRS. These amendments do not have a material impact on Dexia Crédit Local's financial statements as those amendments are related to minor adjustments of some IFRS standards.
• Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants". These amendments have no impact on the financial statements of Dexia Crédit Local.
• Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations". This amendment does not impact the financial statements of Dexia Crédit Local.
• Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation". These amendments have no impact on the financial statements of Dexia Crédit Local.
• Amendment to IAS 1 "Disclosure Initiative". This amendment does not have a material impact on the notes to Dexia Crédit Local's financial statements.
• Amendment to IAS 27 "Equity Method in Separate Financial Statements". This amendment is related to separate financial statements and therefore does not impact the consolidated financial statements of Dexia Crédit Local.
• Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception". These amendments have no impact on the financial statements of Dexia Crédit Local.

1.1.2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2016

• IFRS 15 "Revenue from Contracts with Customers" including amendments to IFRS 15 "Effective date of IFRS 15". IFRS

15 establishes the principles for accounting for revenue arising from contracts with customers. This standard is effective as from 1 January 2018. Dexia Crédit Local has elected to adopt IFRS 15 using the retrospective approach under which transitional adjustments will be recognized in retained earnings on the date of initial application of the standard (modified retrospective approach).

Business lines where the impact of the new standard is expected to be more significant include asset management and trade execution and broker services. As of today, Dexia Crédit Local does not have any activities in these business lines. Moreover, the part of revenue included in the scope of IFRS 15 is not material. Indeed, major part of revenues collected by Dexia Crédit Local follows the accounting treatment prescribed by others standards (particularly "IFRS 9 Financial instruments").Therefore, Dexia Crédit Local does not expect IFRS 15 to have a material impact on its financial statements.

• IFRS 9 "Financial Instruments" (see 1.1.2.4.).

1.1.2.3. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

• IFRS 16 "Leases" (issued by IASB in January 2016). This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements. IFRS 16 introduces significant changes to lessee accounting: it eliminates the distinction between operating and finance leases under IAS 17 and provides an accounting model, requiring lessees to recognise all leases on the balance sheet, subject to limited exceptions. So, if a contract is a lease as defined by the standard, the lessee recognises a right-of-use asset for the underlying asset and a lease liability which is measured at inception at the present value of lease payments discounted over the lease term. Subsequently, the right-of-use asset is depreciated usually on a straight-line basis over the lease term and impairment is recognised if necessary. The lease liability is recognised at amortised cost.

In contrast, IFRS 16 does not include significant changes to lessor accounting. IFRS 16 is effective as from 1 January 2019 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

• Amendment to IAS 7 "Disclosure Initiative" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and the impact on the notes to Dexia Crédit Local's financial statements is currently being assessed.

• Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses" (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and will not have a material impact on Dexia Crédit Local's financial statements.

• Clarification to IFRS 15 "Revenue from Contracts with Customers" (issued by IASB in April 2016). This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 (see 1.1.2.2.).

• Amendment to IFRS 2 "Classification and Measurement of Sharebased Payment Transactions" (issued by IASB in June 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia Crédit Local.

• Amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (issued by IASB in September 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia Crédit Local.

• Annual Improvements 2014-2016 cycle (issued by IASB in December 2016), which are a collection of amendments to existing IFRS. The amendment to IFRS 12 "Disclosure of Interests in Other Entities" is effective as from 1 January 2017 and other amendments are effective as from 1 January 2018. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

• IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (issued by IASB in December 2016). This interpre-tation is effective as from 1 January 2018 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

• Amendment to IAS 40 "Transfers of Investment Property" (issued by IASB in December 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia Crédit Local.

1.1.2.4. New standard IFRS 9 "Financial Instruments"

• IFRS 9 "Financial Instruments" was issued by IASB in July 2014 and adopted by the European Union on 22 November 2016. This standard, that is mandatorily effective for periods beginning on or after 1 January 2018, brings together three following phases to replace IAS 39 "Financial Instruments: Recognition and Measurement": classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB. Changes introduced by IFRS 9 include:

- an approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics;
- a single forward-looking model for the impairment based on expected credit losses;
- a substantially-reformed approach to hedge accounting.

Disclosed information is also enhanced.

Classification and measurement

Financial assets

Under the new classification model, financial assets are measured either at amortised cost, fair value through equity (other comprehensive income) or fair value through profit or loss. The classification of financial assets is based on both: the analysis of the contractual cash flow characteristics of the assets and the business model for managing these assets.

If the contractual terms of the financial asset do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, the asset does not qualify as a "basic" instrument as defined by the standard and so will be measured at fair value through profit or loss.

On the other hand, the assets which are considered as "basic" will be measured at amortised cost or at fair value through other comprehensive income based on the business model for managing these assets.

A financial asset will be measured at amortised cost If the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding and if the asset is held within a business model whose objective is to hold the financial assets to collect the contractual cash flows.

A financial asset must be measured at fair value through other comprehensive income If the contractual terms of the asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount

outstanding and if the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
The financial assets considered as "basic" but not classified into any of these two business models are measured at fair value through profit or loss. This is the case for example for the financial assets held in a trading portfolio.
Under certain conditions, in order to eliminate or reduce a measurement or recognition inconsistency ("accounting mismatch"), an entity can elect to designate a financial asset as measured at fair value through profit or loss.
On the other hand, for equity investments not held in a trading portfolio an entity can make an irrevocable election at initial recognition to present future fair value changes in equity (other comprehensive income) (without recycling to profit or loss In the event of disposal). These equity investments would otherwise be measured at fair value through profit or loss. Assets classified into this category are not subject to impairment.
The business model reflects how a group of debt instruments is managed based on objectives determined by the key management personnel of Dexia Crédit Local. A business model is a matter of fact and typically observable and is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective and depending on how cash flows are generated (collecting contractual cash flows and/or selling the assets).
The contractual terms of the asset that give rise to payments of solely principal and interest represent primarily compensation for the time value of money and credit risk and can also include consideration for other risks (liquidity risk) and costs (administrative costs) associated with holding the financial asset for a period of time, as well as a profit margin.
Derivative instruments continue to be measured at fair value through profit or loss, except if they are designated within a hedging relationship. In this case, they are measured based on the type of hedging relationship.

Financial liabilities

Under IFRS 9, financial liabilities are measured either at amortised cost or at fair value through profit or loss or they can be designated at fair value through profit or loss using the fair value option in the same way as under IAS 39.
The main change introduced by IFRS 9 includes the recognition of changes in the fair value attributable to own credit risk in equity for financial liabilities designated at fair value through profit or loss, without recycling to profit or loss.

Impairment

The IFRS9 standard introduces a new impairment model of financial assets based on expected credit losses. This new impairment model applies to debt instruments (loans or bonds) measured at amortized cost or debt instruments measured at fair value through OCI as well as lease receivables and trade receivables. This impairment model also applies to Dexia Crédit Local's off-balance sheet undrawn loan commitments and financial guarantee given. For the latter mentioned, expected credit losses are booked on the liability side of Dexia Crédit Local's Balance sheet.
The ECL model constitutes a change from the guidance in IAS 39 based on incurred losses.
In this model, each financial instrument (except assets that are purchased or originated in default) is allocated amongst 3 buckets depending of the evolution of credit risk since initial recognition.

• Bucket 1: Financial instruments that have not deteriorated significantly in credit quality since initial recognition
• Bucket 2: Financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss
• Bucket 3: Financial assets that have objective evidence of impairment at the reporting date

The amount of loss allowance and the calculation of interest revenue based on the Effective Interest Rate (EIR) method depends in which bucket the financial instrument is allocated.
When the financial instrument is in Bucket 1, the amount of loss allowance is equal to 12-month expected credit losses, while in bucket 2 and 3, the amount of loss allowance is equal to lifetime expected credit losses.
Interest revenue for financial assets allocated in Bucket 1 or 2 are calculated by applying the EIR to the gross carrying amount, while for financial assets in bucket 3, EIR applied to amortised cost.
For purchased or originated credit impaired financial assets, the amount of loss allowance recognized in profit or loss is the cumulative changes in lifetime expected credit losses since initial recognition. The amount of favorable change in lifetime expected credit losses is recognized in profit or loss as an impairment gain.
As the definition of default is not precisely provided by the IFRS9 standard, Dexia Crédit Local choose to use the prudential definition provided by the regulation No 575/2013 of the European Union, consistently with the definition used for internal credit risk management.
Dexia Crédit Local is not planning to use the simplified approach allowed by IFRS9 for trade receivables (that have a significant financing component) or lease receivables.

Hedge accounting

The new hedge accounting model of IFRS 9 aims to more closely align accounting treatment with risk management by reinforcing certain principles and by removing certain rules which were considered as too prescriptive.
IFRS 9 does not fundamentally change the current types of hedging relationships and the requirements to measure and recognise ineffectiveness. Three hedge accounting models – fair value hedge, cash flow hedge and net investment hedge – are retained.
In line with the objectives, the main changes introduced by the standard include the following:

• additional exposures may be designated as hedged items;
• increased eligibility of hedging instruments;
• introduction of a new alternative to hedge accounting: fair value through profit or loss option designation for credit exposures managed with credit derivatives;
• more flexible effectiveness criteria;
• extensive additional disclosures to be provided.

While awaiting the future standard on macro hedging, IFRS 9 permits to keep applying the current hedge accounting requirements (IAS 39) for all hedge relationships or only for macro-hedge relationships. It is also possible, starting from 2018, to apply the IFRS 9 standard to all hedge relationships.

On-going project and impacts

The impacts of IFRS 9 on the financial statements and the financial and prudential own funds of Dexia Crédit Local are still under assessment. Being aware that IFRS 9 is a major issue for banking institutions, Dexia Crédit Local launched its IFRS 9 project In the first quarter of 2015. The project is co-led by the Chief Financial Officer and the Chief Risk Officer.

The initial diagnostic and impact assessment studies of the application of the standard have been performed:

• on the first phase of the standard, Dexia Crédit Local reviews the characteristics and the classification and measurement method of all its financial assets;

Based on the analysis of products characteristics, most of financial assets held by Dexia Crédit Local are considered as SPPI (Solely Payment of Principal and Interest) instruments, eligible to the amortised cost or fair value through equity categories. These assets are mainly vanilla floating or fixed rate loans or securities. A part of these assets implies, in case of early redemption, the payment or reception by the borrower of an indemnity which depends on the level of market interest rates. These early redemption fee, which are symmetrical, are discussed at the IASB level, regarding the consistency of this feature with the SPPI conditions. Waiting for the final decision of the IASB, the classification of these assets is still uncertain.

Some structured loans to local public entities with a contractual interest rate based on a formula with leverage effect, indexed on currency exchange rates or long term interest rate index (such as "constant maturity swap" rates) will be classified at Fair Value Through Profit or Loss.

Most of equity instruments or mutual funds units will be classified at fair value through profit or losses. However, some equity instruments may, on a case by case basis, be classified at fair value through equity (but without transfer into Profit or Losses upon sales).

For financial assets considered as SPPI, the classification at amortised cost or at Fair Value Through equity depends on Dexia Crédit Local's holding strategy.

According to the Orderly Resolution Plan, approved by the European Commission in 2012, Dexia Crédit Local no longer has any commercial activities and its residual assets are being managed in run-off without accelerated sale of the whole assets of the Group in order to protect Dexia Crédit Local's capital base. Consistently with this Orderly Resolution Plan, Dexia Crédit Local will therefore collect the cash flows over the life of a major part of the assets which will be measured at amortised cost. Another part of Dexia Crédit Local's financial assets, isolated in dedicated portfolios, is held for sale when market opportunities will appear. The trade-off between these two portfolios will depend on strategic decisions to be made by Dexia Crédit Local during 2017. Apart from derivatives, the trading portfolio of Dexia Crédit Local which is already measured at fair value through profit or loss will remain limited.

• on the second phase of the standard, Dexia Crédit Local has initiated work to develop a new impairment model;

First of all, the financial assets will be allocated amongst 3 buckets according to the following approach:

Financial assets classified in bucket 3 are financial assets in default, as defined by the prudential regulation.

For other financial assets, the classification in bucket 1 or 2 will depend on:

1/ a quantitative test which assesses the deterioration of credit risk since the initial accounting recognition and whether this deterioration is significant. This test is based on the probability of default evolutions between the exposure origination date and the current date of reporting.

2/ a qualitative test including the review of watchlist exposures, the identification of forborn exposures and also the identification of sensible economic sectors.

If one the these two test is met, the exposure is classified in bucket 2, else in bucket 1.

The estimation of loss allowance allocated to each exposure is based on an expected loss model, on a 12-month horizon for bucket 1 and a life-time horizon for bucket 2 and 3.

The expected losses are based on the Exposure at Default, the Probability of Default and the Loss Given Default point in time and forward looking, which take into account assumptions on macro-economic forecast at medium term. These expected losses also take into account the uncertainty related to these macro-economic assumptions.

• on the third phase, the pros and cons of application of the new approach related to hedge accounting have been assessed. Waiting for the future IASB standards on Macro-hedge, Dexia Crédit Local decided to maintain the requirements of IAS 39 for all the hedge relationships (micro and macro-hedge).

Dexia Crédit Local also reviews new disclosure requirements in the consolidated financial statements.

During the first half of 2016, Dexia Crédit Local launched the assessment to adapt the information systems and internal process in order to comply with the new requirements for internal and external reporting related to IFRS 9 as of 1st January 2018. This implementation will continue and will be tested during 2017 for all entities of Dexia Group. The IFRS 9 project is reported regularly to the Management Board and the Board of Directors.

First Time application options

As permitted by IFRS 9, Dexia Crédit Local intends to early apply the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss on the 1st January 2017.

As permitted by IFRS 9, Dexia Crédit Local decided not to present, in the 2018 annual report, comparative figures for 2017 restated under the application of IFRS 9 but will maintain 2017 figures under IAS 39.

First time application impacts on the financial statements of Dexia Crédit Local

The impact of the adjustments related the new IFRS 9 classification and measurements will be recognised on 1st January 2018 directly in equity on a retrospective basis, as if the assets were classified as such from inception.

At this stage, based on preliminary assessment which is still subject to several uncertainties (described below), Dexia Crédit Local expects that the first application of IFRS 9 will have the following impacts on its own funds on 1st January 2018:

• Reclassification of debt securities and structured loans, based on their characteristics, mainly from the amortised cost to the Fair Value Through P&L category. The impact of the fair valuation of these assets will probably be negative since the credit spreads have widened from inception, the interest rate risk being hedge besides. The valuation methodology for these loans is under on-going validation process;

• Reclassification of Available For Sale assets into amortised cost will have a positive impact related to the release of unrealised gain or loss recognised in equity under IAS 39 (including "frozen AFS reserve" related to previous reclassification under IAS 39 from securities Available For Sale or Held For Trading into Held To maturity or Loans & Receivables categories. These reserves amount to -4 141 million as at 31/12/2016;

• Reclassification of debt securities and loans held for sale when market opportunities will appear from amortised cost category under IAS 39 (Loans & Receivables) to Fair Value Trough Equity under IFRS 9 which will lead to the recognition of unrealised gains or losses in own funds. The expected impact is negative since the credit spreads have widened from inception;

• Recognition of additional provisions for credit risk, which are under calibration process. Dexia Crédit Local does not expect major modification for assets in bucket 3 since the methodology for specific provision is very close to the current one under IAS 39. Provisions on asset in bucket 1 should be limited since the Expected Loss is estimated on a 12-month horizon. However, the increase of provision will be more significant for assets in bucket 2 which includes Financial instruments that have deteriorated significantly in credit quality since initial recognition completed with an additional backstop based on Watchlist or forborn assets. These assets will be subject to life-time expected loss which is higher than bucket 1 expected loss. Dexia Crédit Local's portfolio remains at high credit quality level and is mainly composed of public sector counterparts. As a consequence, the increase in provision should be relatively moderate.

Overall, the net global impact of the first time application of IFRS 9 on Dexia Crédit Local's own funds on the 1st January 2018 is expected to be positive, based on current assumptions. The magnitude of the impact on the financial statements on the 1st January 2018 depends on uncertainty factors among which:

• The evolution of market conditions and mainly the change in market credit spread between the 31st December 2016 and the 31st December 2017;

• Strategic decisions that will be made by Dexia Crédit Local during 2017 regarding the management of assets under resolution plan;

• Standards amendments or interpretations that may be published in 2017;

• The modification of valuation model for financial assets;

• The calibration of expected loss model, including the macroeconomic scenarios that will be retained for this estimation;

• Regulators and supervisors requirements that may have an impact in the valuation of assets or the level of provisions.

Other elements:

• On the 1st January 2017, the variation of own credit risk related to liabilities designated by option at fair value through profit or loss will be recognised directly in equity et no more in profit or loss. In case of early redemption of such liabilities, an analysis should be performed to identify and explain the difference between the redemption amount and the carrying amount. The part related to the variation of own credit risk will not be recognized in profit or loss but directly in equity (reclassification from "gains and losses directly recognised in equity" to "consolidated reserve");

• Some derivatives which are hedging financial assets that will be classified at Fair Value Trough Profit or Loss will not be eligible as hedging instruments contrary to the current treatment under IAS 39 and will be classified as Held for trading. These derivatives will remain in the banking book (i.e. not included in the trading book) from a regulatory point of view. The volatility in Profit or Loss related to the interest rate risk of these assets will be offset by the change in fair value of the economic hedging derivatives but the volatility related to credit risk will impact Dexia Crédit Local's regulatory own funds.

The final impact on Dexia Crédit Local's regulatory own funds will also depends on prudential filters that will be applied on Dexia Crédit Local's equity under IFRS 9. Apart from prudential valuation on assets measured at fair value, the prudential treatment of IFRS 9 impacts is not yet defined in the European regulations, including the treatment of provision for credit risk.

1.1.2.5. Changes in presentation of consolidated financial statements of Dexia Crédit Local

There has been no change in presentation of consolidated financial statements of Dexia Crédit Local during the current year.

The consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. Since 31 December 2013, they have been compliant with ANC Recommendation 2013-04 issued on 7 November 2013 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards".

1.1.3. CONSOLIDATION

1.1.3.1. Subsidiaries and structured entities

Subsidiaries are those entities over whose Dexia Crédit Local may exercise control. Entities controlled by the Group are fully consolidated under IFRS 10 "Consolidated Financial Statements", the Group controls an entity if and only if the Group has all the following:

• power over the entity;

• exposure, or rights, to variable returns from its involvement with the entity;

• the ability to use its power over the entity to affect those returns.

Dexia Crédit Local has power over an investee when it has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee's returns.

When power over an entity is obtained directly and solely from the voting rights granted by equity instruments, the investor that holds a majority of those voting rights controls the entity.

In other cases, especially for structured entities, the assessment of control is more complex and may require greater use of judgment considering other factors. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, Dexia Crédit Local is particularly involved in securitisation vehicles and investment funds.

The ability to direct the relevant activities is assessed by considering: the purpose and design of the investee; managing financial assets during their life, including the management upon default; selecting, acquiring, disposing or replacing of assets; appointing and remunerating an investee's key management personnel and terminating their employment. Dexia Crédit Local determines whether it is exposed, or has rights, to variable returns by considering: dividends and other distributions of economic benefits; exposure to loss through instruments that absorbs variability (including CDSs as sellers of protection or junior tranches designed to absorb the first losses and paid on credit risk exposure basis); remuneration for servicing an investee's assets or liabilities; returns that are not available to other interest holders.

An investor controls an investee when it not only has power over investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee. Thus, an investor with decision-making rights shall determine whether it is a principal or an agent considering all the factors below:

• the scope of its decision-making authority over the investee;

• the rights held by other parties (including right to remove the decision maker);

• the remuneration to which it is entitled in accordance with the remuneration agreements;
• the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Subsidiaries are fully consolidated as of the date on which effective control is transferred to Dexia Crédit Local and are no longer consolidated as of the date on which Dexia Crédit Local's control ceases. Intercompany transactions, balances and unrealised gains and losses on transactions among Dexia Crédit Local's companies have been eliminated. Where necessary, the accounting policies of the subsidiaries have been amended to ensure consistency with the policies adopted by Dexia Crédit Local.

Changes in the Dexia Crédit Local's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. When the proportion of the equity held regarding non-controlling interests (minority interests) changes, the carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

When Dexia Crédit Local loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:
• the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
• the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests.

The fair value of any investment retained in the former subsidiary at the date on which control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, where applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

1.1.3.2. Associates and joint venture.

Associates are investments in which Dexia Crédit Local has significant influence, but does not exercise control. This is usually the case, when Dexia Crédit Local owns between 20% and 50% of the voting rights.

A joint venture is a contractual arrangement of which two or more parties undertake a jointly controlled economic activity. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and are required to agree unanimously to decisions about the relevant activities of the arrangement.

Dexia Crédit Local has no equity method investments.

1.1.4. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In accordance with IAS 32, financial assets and financial liabilities are offset (and consequently, the net amount only is reported) when Dexia Crédit Local has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Since 31 December 2013, the derivative instruments transacted by Dexia Crédit Local with clearing houses that meet the two criteria required by IAS 32 have been offset on the balance sheet.

Offsetting effects are disclosed in the note 4.3. "Offsetting financial assets and financial liabilities".

1.1.5. FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

1.1.5.1. Foreign currency translation

On consolidation, the statements of income and cash flow statements of foreign entities that have a functional currency different from Dexia Crédit Local's presentation currency are translated into Dexia Crédit Local's presentation currency (EUR) at the average exchange rates for the year (annual reporting) or the period (interim reporting) and their assets and liabilities are translated at the respective year-end or quarter-end exchange rates.

Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates, joint ventures and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity accompanied by a loss of control, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities in the functional currency of the foreign entity and are translated at the closing rate.

1.1.5.2. Foreign currency transactions

For individual Dexia Crédit Local entities, foreign currency transactions are accounted for using the exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies at period or year-end are translated at period or year-end exchange rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated income statement; except for the foreign exchange impact related to fair value adjustments on available-for-sale bonds, which is recorded under "Other comprehensive income". For non-monetary items carried at fair value, the exchange differences are governed by the same accounting treatment as for fair value adjustments.

1.1.6. FINANCIAL ASSETS AND LIABILITIES

Management uses judgement on the criteria mentioned in the paragraphs below in determining the appropriate classification of its investments at initial recognition. However, under certain conditions, financial assets could subsequently be reclassified.

1.1.6.1. Recognition and derecognition of financial instruments

Dexia Crédit Local recognises and derecognises financial assets held for trading, that require delivery within the established timeframes (a "regular way" purchase or sale), on trade date. For these financial assets, Dexia Crédit Local recognises in the income statement, any unrealised gains or losses arising from revaluing the contract to fair value at the reporting date. Dexia Crédit Local recognises these unrealised gains and losses under "Net gains (losses) on financial instruments at fair value through profit or loss".

All other "regular way" purchases and sales of financial assets not held for trading are recognised and derecognised on the settlement date, which is the date of delivery to or by Dexia Crédit Local.

Dexia Crédit Local derecognises all or part of a financial asset if the contractual rights to the cash flows from the financial asset expire or if these contractual rights to receive the cash flows of the financial asset or substantially all of the risks and rewards of ownership are transferred. In this case, any rights or obligations created or retained at the time of transfer are recognised separately as assets and liabilities.

Dexia Crédit Local recognises the financial liabilities on its balance sheet when it becomes party to the contractual provisions of the instrument. Dexia Crédit Local derecognises financial liabilities only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires.

1.1.6.2. Loans and advances due from banks and customers

Dexia Crédit Local classifies non-derivative financial assets with fixed or determinable payments that are not quoted on an active market into this category (labelled by IAS 39 as Loans and Receivables - L&R) except for:

- those that Dexia Crédit Local intends to sell immediately or in the near term, which are classified as held for trading, and those that Dexia Crédit Local, upon initial recognition, designates as being at fair value through profit or loss;
- those that Dexia Crédit Local, upon initial recognition, designates as available-for-sale; or
- those for which Dexia Crédit Local may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

Dexia Crédit Local recognises interest-bearing loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is calculated using the effective interest rate method and recognised in net interest income.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

1.1.6.3. Financial instruments measured at fair value through profit or loss

1.1.6.3.1. Loans and securities held for trading

Dexia Crédit Local reports loans held for trading purposes in the line "Financial assets at fair value through profit or loss" at their fair value, with unrealised gains and losses recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest income is accrued using the effective interest rate method and is recognised in net interest income.

Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer's margins, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Dexia Crédit Local initially recognises trading securities at fair value and subsequently re-measures them at fair value. All realised and unrealised gains and losses are recorded under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest earned is recognised in net interest income, and dividends received under "Net gains (losses) on financial instruments at fair value through profit or loss".

1.1.6.3.2. Liabilities held for trading

Liabilities held for trading are subject to the same accounting rules as those for "loans and securities held for trading".

1.1.6.3.3. Loans and securities designated at fair value through profit or loss (FVO)

In some cases and if appropriately documented, Dexia Crédit Local can designate a financial asset, a financial liability or a group of financial instruments as "at fair value through profit or loss" where:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy;
- an instrument contains a non-closely related embedded derivative:

- that significantly modifies the cash flows that otherwise would be required by the contract; or
- for which it is not clear, with little or no analysis, that the separation of the embedded derivative is prohibited.

Unrealised gains and losses on these assets are recorded in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

1.1.6.3.4. Liabilities designated at fair value through profit or loss (FVO)

For subsequent measurement, these financial liabilities are subject to the same accounting principles as described earlier under the heading "Financial instruments measured at fair value through profit or loss".

1.1.6.3.5. Derivatives - Trading portfolio

When a derivative is not designated in a hedge relationship, it is deemed to be held for trading. The main types of derivatives are the currency and the interest-rate derivatives.

Dexia Crédit Local, which also makes use of credit derivatives and equity derivatives, initially and subsequently measures all derivatives at the fair value obtained from quoted market prices, discounted cash flow models or pricing models, as appropriate.

All changes in fair value are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Interest is recognised in net interest income.

Dexia Crédit Local reports derivatives as assets when fair value is positive and as liabilities when fair value is negative.

Dexia Crédit Local treats certain derivatives embedded in other financial instruments as separate derivatives:

- when their risks and characteristics are not closely related to those of the host contract; and
- when the hybrid contract is not carried at fair value with unrealised gains and losses reported in the income statement.

Dexia Crédit Local reports embedded derivatives which were separated under the same heading as the host contract.

1.1.6.4. Financial investments

1.1.6.4.1. Held-to-maturity

Dexia Crédit Local classifies the interest-bearing financial assets with fixed maturity quoted in an active market as "Financial assets held to maturity" (HTM) when management has both the intent and the ability to hold the assets to maturity.

Dexia Crédit Local recognises such interest-bearing financial assets initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is recognised based on the effective interest rate method and recorded in net interest income.

1.1.6.4.2. Available-for-sale

Dexia Crédit Local classifies financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Financial assets available for sale" (AFS).

Dexia Crédit Local recognises financial assets initially at fair value (including transaction costs). Interest is recognised based on the effective interest-rate method and recorded in net interest income. Dexia Crédit Local recognises dividend income from variable-income securities under "Net gains (losses) on financial assets available for sale".

Dexia Crédit Local subsequently re-measures available-for-sale financial assets at fair value (see 1.1.7. Fair value of financial instruments). Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised within equity under the heading "Unrealised or deferred gains and losses".

When assets are disposed of, or impaired, Dexia Crédit Local recycles the related accumulated fair value adjustments in the income statement in "Net gains (losses) on financial assets available for sale". However, the gains and losses on impaired debt instruments are recognised in "Cost of risk".

1.1.6.5. Impairments on financial assets

Dexia Crédit Local records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired as a result of one or more events occurring after initial recognition and evidencing (a) a decline in the expected cash flows and (b) the impact on the estimated future cash flows that can be reliably estimated.

1.1.6.5.1. Financial assets valued at amortised cost

Dexia Crédit Local first assesses whether objective evidence of impairment exists individually for financial assets. If no such evidence exists, the financial assets is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

There is objective evidence of individual impairment when a counterparty has or is likely to have difficulties meeting its commitments. An asset is also likely to be impaired if it is past due for more than three months.

Collective impairments are recognised if an incurred risk is identified on a sector and on portfolios of assets considered sensitive and placed on watch.

Determination of the impairment

- Specific impairments – If there is objective evidence that loans or other receivables, or financial assets classified as held-to-maturity are impaired, the amount of the impairment on specifically identified assets is calculated as the difference between the carrying amount and the estimated recoverable amount, being the present value of expected cash flows, including judgements on the amounts recoverable from guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is assessed as being impaired, it is excluded from the portfolio on which a collective impairment is calculated. Assets with small balances that share similar risk characteristics follow the principles as described below.
- Collective impairments – Collective impairments cover losses incurred where there is no specific impairment but objective evidence of losses in segments of the portfolio or other lending-related commitments at the balance-sheet date. Dexia Crédit Local estimates them based upon the historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic environment in which the borrowers operate. Dexia Crédit Local develops for that purpose credit-risk models using an approach that combines appropriate default probabilities and loss-given defaults that are subject to regular back-testing and are based on Basel II data and risk models, consistently with the "incurred-loss" model. Assumptions are made to define the way inherent losses are modelled and to determine the required parameters, based on historical experience.

Accounting treatment of the impairment

Dexia Crédit Local recognises changes in the amount of impairment losses in the income statement in "Cost of risk". The impairment losses are reversed through the income statement if the increase in fair value relates objectively to an event occurring after the impairment was recognised.

When an asset is determined by management to be uncollectable, the outstanding specific impairment is reversed via the income statement under the heading "Cost of risk" and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for under this heading.

1.1.6.5.2. Reclassified financial assets

Dexia Crédit Local can reclassify financial assets initially classified as "available-for-sale" or in rare circumstances "held for trading" into "held-to-maturity" or "loans and receivables" categories. Thus, a reclassification to "loans and receivables" is possible when assets "available-for-sale" are not any longer quoted in active markets and when Dexia Crédit Local has the intent and the ability to hold the asset in the foreseeable future or to maturity.

A reclassification to "held-to-maturity" is possible as a result of a change in Dexia Crédit Local's intention regarding "available-for-sale" assets, when Dexia Crédit Local has the intention and ability to hold these financial assets until maturity and provided that these assets are non-derivative assets with fixed or determinable payments and fixed maturity.

In such circumstances, the fair value of "available-for-sale" assets at the date of transfer becomes the new amortised cost of those financial assets. Any fair value adjustment previously recognised under "Other comprehensive income" is "frozen" and amortised on the residual maturity of the instrument. Regarding the calculation of impairment, reclassified financial assets are governed by the same estimates, judgements and accounting principles as financial assets initially valued at amortised cost. If there is objective evidence that reclassified financial assets are impaired, Dexia Crédit Local calculates the amount of the impairment on reclassified assets as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted at the recalculated effective yield at the time of reclassification. Any unamortized part of the frozen AFS reserve is recycled in the income statement and reported under the heading "Cost of risk" as a part of the impairment.

1.1.6.5.3. Available-for-sale assets

Dexia Crédit Local recognises the impairment of available-for-sale assets on an individual basis if there is objective evidence of impairment as a result of one or more events occurring after initial recognition.

Determination of the impairment

- Equities – For equities quoted in an active market, any significant decline in their price (more than 50% at reporting date) or a prolonged decline (5 years) compared to the acquisition price is considered as an objective evidence of impairment. In addition, management can decide to recognise impairment losses should other objective evidence be available.

- Interest-bearing financial instruments – In the case of interest bearing financial instruments, impairment is triggered based on the same criteria as applied to individually impaired financial assets valued at amortised cost (see 1.1.6.5.1).

Accounting treatment of the impairment

When available-for-sale equity securities are impaired, the total AFS reserve is recycled and these impairment losses are reported by Dexia Crédit Local in the income statement in "Net gains (losses) on financial assets available for sale". Additional decline in fair value is recorded under the same heading for equity securities.

When an impairment loss has been recognised on interest-bearing financial instruments, any subsequent decline in fair value is recognised in "Cost of risk" if there is objective evidence of impairment. In all other cases, changes in fair value are recognised in "Other comprehensive income".

Impairments on equity securities cannot be reversed in the income statement due to later recovery of quoted prices.

1.1.6.5.4. Off-balance-sheet exposures

Dexia Crédit Local usually converts off-balance-sheet exposures such as credit substitutes (e.g., guarantees and standby letters of credit) and loan commitments into on-balance-sheet items when called. However, there may be circumstances such as uncertainty about the counterparty, where the off-balance-sheet exposure should be regarded as impaired. Dexia Crédit Local recognises provisions on loan commitments if the credit worthiness of the client has deteriorated to such an extent as to make the repayment of any loan and associated interest payments doubtful (see 1.1.22).

1.1.6.6. Accounting for early repayments and restructuring of loans

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 dealing with the restructuring of financial liabilities. There are several possibilities for accounting, depending on whether the early repayment is recognised as not being an extinguishment (with refinancing) or as an extinguishment (no refinancing).

Case of early repayment with refinancing

The method of accounting for loan early repayments and early repayment indemnities differs depending on whether or not the restructuring results in terms that are substantially different from those set initially. In accordance with the principles of AG 62, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10% different from the net present value of the remaining cash flows from the original loan. The accounting treatment of loans and early repayment indemnities depends on the results of the eligibility test. If the eligibility test is passed, i.e. the income statement difference is less than 10%, the original loan is not derecognised and the early repayment indemnity is amortised over the remaining term of the restructured loan. Otherwise, i.e. the difference exceeds 10%, the original loan is derecognised and the early repayment indemnity is recognised immediately in the income statement in "Net gains (losses) on financial assets available for sale".

Case of early repayment without refinancing

When the loan has been extinguished, the early repayment indemnity, as well as any gains or losses arising from an unamortised premium or discount, is recognised in the income statement in "Net gains (losses) on financial assets available for sale" as income for the period, as required by IFRS.

1.1.6.7. Borrowings

Dexia Crédit Local recognises borrowings initially at fair value, being generally their issue proceeds, net of any transaction costs incurred. Subsequently, borrowings are stated at amortised cost. Dexia Crédit Local recognises any difference between their initial carrying amount and the redemption value in the income statement over the period of the borrowings using the effective interest rate method.

The distinction between interest-bearing instruments and equity instruments issued is based on the substance of their underlying contracts rather than their legal form.

1.1.7. FAIR VALUE OF FINANCIAL INSTRUMENTS

1.1.7.1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorized into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

1.1.7.2. Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets available for sale and valuations for disclosures) can be summarized as follows:

1.1.7.2.1. Financial instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The departments Financial Market Risk and Product Control regularly monitor the quality of valuations:

• the valuations of derivatives are compared with those provided by a number of counterparties and analysed quarterly during an *ad hoc* committee;

• transaction execution levels are used to ensure the quality of the valuation approaches;

• the valuation approaches are regularly reviewed and are subject to validation by the Department of Validation.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Front Office Funding and Markets or Financial Market Risk and are validated by the Department of Validation. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. They are produced by Product Control. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).

Concerning the valuation of derivatives, Dexia Crédit Local adjusts the market value to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

• The market of collateralized derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.

• The market of uncollateralized derivatives, where there is a risk on the fair value of the derivative at the balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses for the discounting an overnight rate (OIS) curve for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated to its uncollateralized derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates.

Dexia Crédit Local will continue to improve its models in the next periods following market practice.

1.1.7.2.2. Financial instruments measured at amortised cost (valuations in IFRS disclosures on fair value)

Financial instruments reclassified from Trading or AFS to L&R

As a response to the financial crisis, the IASB issued on October 13th, 2008 an amendment to IAS 39 permitting the reclassification of certain illiquid financial assets. Dexia Crédit Local decided to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available.

These assets are valued using Dexia Crédit Local's approach described above for the bonds for which no active market exists.

1.1.7.2.3. Financial instruments classified in HTM and L&R since inception and liabilities

Loans and Receivables, including mortgages loans, and liabilities are valued based on the following valuation principles

General principles

For the valuation of loans classified in L&R since inception the standard market approach is used based on market data considered as observable (credit spreads estimated by sector and applied to borrower's internal rating).

For the borrowing liabilities not quoted on the market, estimated credit spreads are also applied.

Interest rate part

The fair value of fixed-rate loans or liabilities and mortgages reflects interest rate movements since inception.

Embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities.

Credit risk part

Credit spreads changes since inception are reflected in the fair value.

1.1.8. INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest rate method based on the initial carrying value (including transaction costs) for financial instruments not valued at fair value through P&L.

Transaction costs are the incremental costs that are directly attributable to the acquisition of a financial asset or liability and are included in the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.

Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the interest that was used to discount the future cash flows for measuring the recoverable amount.

Interest income and expenses on derivatives are presented on a gross basis by instrument.

In January 2015, the IFRS Interpretations Committee received a request to clarify an issue relating to the impact of negative effective interest rates on the presentation of income and expenses in the statement of comprehensive income. It noted that interest resulting from a negative interest rate on financial asset does not meet the definition of interest revenue in IAS 18 "Revenue". Following the decision of IFRS IC and according to the view of the European Banking Authority (EBA), Dexia Crédit Local presents negative remuneration on assets together with interest expense and positive remuneration on liabilities together with interest income.

1.1.9. FEE AND COMMISSION INCOME AND EXPENSE

Commissions and fees arising from most of Dexia Crédit Local's activities are recognised on an accrual basis over the life of the underlying transaction.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognised when the significant act has been completed.

Loan commitment fees are recognised as part of the effective interest rate if the loan is granted, and recorded as revenue on expiry if no loan is granted.

1.1.10. HEDGING DERIVATIVES

Hedging derivatives are categorised as either:

- a hedge of the fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge); or
- a hedge of a net investment in a foreign operation.

Dexia Crédit Local designates derivatives as hedging instruments if certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is available before hedge accounting is applied;
- the hedge is documented in such a way as to show that it is expected to be highly effective both prospectively and retrospectively in offsetting changes in the fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period; and
- the hedge is effective at inception and on an ongoing basis.

Dexia Crédit Local records changes in the fair value of derivatives that are designated, and qualify, as fair value hedges in the income statement, along with the corresponding change in fair value of the hedged assets or the liabilities that is attributable to that specific hedged risk.

If the hedge no longer meets the criteria for a fair value hedge and the hedged item is still recognised, Dexia Crédit Local amortises the adjustment to the carrying amount of a hedged interest-bearing financial instrument to the income statement over the remaining life of the hedged or hedging instrument if shorter by an adjustment of the yield of the hedged item.

Dexia Crédit Local recognises the effective part of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges, in "Other comprehensive income" under the heading "Unrealised or deferred gains and losses" (see "Consolidated statement of changes in equity"). Any non-effective portion of the changes in the fair value of the hedging instrument is recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Changes in the fair value of derivatives in respect of Credit Valuation Adjustment (CVA), Debit Valuation Adjustment (DVA) and Funding Valuation Adjustment (FVA) are recognised in the income statement under "Net gains (losses) on financial instruments at fair value through profit or loss". Amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

1.1.11. HEDGE OF THE INTEREST RATE RISK EXPOSURE OF A PORTFOLIO

As explained in 1.1.1.1 General, Dexia Crédit Local makes use of the provisions in IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way in which Dexia Crédit Local manages its financial instruments.

Hedge accounting is intended to reduce the interest-rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.

Dexia Crédit Local performs a global analysis of interest-rate risk exposure. It consists in assessing fixed-rate exposure, taking into account all the exposure coming from balance sheet and off-balance-sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities is monitored on an activity-by-activity basis.

Dexia Crédit Local applies the same methodology to select which assets and/or liabilities will be entered into the hedge of interest rate risk exposure of the portfolio. Assets and liabilities are included in all the time buckets of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time buckets in which they had an impact. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. Dexia Crédit Local may designate as qualifying hedged items different categories of assets or liabilities such as available-for-sale assets or loan portfolios.

On the basis of this gap analysis, which is realised on a net basis, Dexia Crédit Local defines, at inception, the risk exposure to be hedged, the length of the time-bucket, the test method and the frequency of the tests.

The hedging instruments are a portfolio of derivatives, which may contain offsetting positions. Dexia Crédit Local recognises the hedging items at fair value with adjustments accounted for in the income statement.

Dexia Crédit Local reports hedged interest rate risk revaluation of elements carried at amortised cost on the balance sheet under the line "Fair value revaluation of portfolio hedge".

1.1.12. DAY ONE PROFIT OR LOSS

The day one profit or loss is applicable to all transactions measured at fair value through profit or loss.

The day one profit or loss is the difference between:

- the transaction price and the quoted market price; in cases where the transaction is quoted; or
- the transaction price and the fair value determined by using a valuation technique, (mark-to-model) adjusted with some market value adjustments, such as a liquidity adjustment, model adjustment or credit adjustment in cases where the transaction is not quoted.

If Dexia Crédit Local considers the main parameters of the model as observable and if Risk Management validates the model, the day one profit or loss will be recognised immediately in the income statement.

If Dexia Crédit Local considers the main parameters as unobservable or if Risk management does not validate the model, the day one profit or loss will be amortised linearly over the expected life of the transaction. However, if the data becomes observable subsequently, Dexia Crédit Local will recognise the remaining portion of day one profit or loss in the income statement.

In cases of early termination, the remaining portion of day one profit or loss will be recognised in the income statement. In cases of partial early termination, Dexia Crédit Local will recognize in the income statement the part of the day one profit or loss relating to the partial early termination.

1.1.13. TANGIBLE FIXED ASSETS

Tangible fixed assets include property, plant & equipment and investment properties.

All property, plant & equipment are stated at their cost less accumulated depreciation and impairments. Subsequent costs are, where necessary, included in the carrying amount of the asset or recognised as a separate component, if it is probable that future economic benefits will flow to the Group and the cost of the asset can be reliably measured.

Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.

The main useful lives are as follows:

- Buildings (including acquisition costs and non deductible taxes): 20 to 50 years;
- Computer equipment: 3 to 6 years;
- Leasehold improvements, equipment and furniture: 2 to 12 years;
- Vehicles: 2 to 5 years.

An item of property, plant & equipment can be composed of significant parts with individually varying useful lives. In such a case, each part is depreciated separately over its estimated useful life. The following parts have been defined:

- Structure of the building: 50 years;
- Roof and frontage: 30 years;
- Technical installations: 10 to 20 years;
- Fixtures and fittings: 10 to 20 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Tangible fixed assets are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Where the recoverable amount of an asset cannot be determined individually the Group determines the recoverable amount of the cash generating unit or group of cash generating units to which the asset belongs. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

Investment properties are those properties held to earn rentals or for capital appreciation. Dexia Crédit Local may also partly use such properties. If the "own use" portions can be sold separately or leased out separately under finance lease, then these portions are accounted for separately. If the "own use" portions cannot be sold separately, the property will be considered as an investment property if Dexia Crédit Local holds an insignificant portion for its own use.

Investment properties are recorded at its cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis. Depreciation on buildings and other assets given in operating lease are booked under "Other expenses".

1.1.14. INTANGIBLE ASSETS

Intangible assets consist mainly of (a) internally generated and (b) acquired software. The costs associated with maintaining computer software programs are recognised as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives from the time the software is available for use. This amortisation period is usually between three and five years, except for core business applications, for which the amortisation period is can be up to 10 years.

As borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset they are capitalised. Other borrowing costs are recognised as an expense.

Intangible assets (other than goodwill) are tested for impairment when an indication of impairment loss exists. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of intangible assets are determined by reference to their carrying amount and are included under "Net gains (losses) on other assets".

1.1.15. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets (or groups of assets) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use are classified as non-current assets (or disposal groups) "held for sale" if:

- they are available for immediate sale in their present condition; and
- their sale is highly probable within one year.

Dexia Crédit Local measures a non-current asset (or disposal group) classified as held for sale at its carrying amount or at its fair value less costs to sell (whichever is the lower). Non-current assets (or disposal groups) classified as held for sale are presented separately in the balance sheet, without restatement for previous periods. When a disposal group is classified in held for sale, items of Other Comprehensive Income are isolated in a separate publication line of the equity. These assets are no longer depreciated once they qualify as assets (or disposal groups) held for sale. Intercompany accounts between the continuing activities and the disposal group held for sale continue to be eliminated.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss of discontinued operations is presented under a separate line in the income statement. A restatement for previous periods is performed.

1.1.16. GOODWILL

Dexia Crédit Local has no goodwill on its balance sheet and will not acquire any controlling interests in the future following the orderly resolution plan of the group.

1.1.17. ACCRUALS AND OTHER ASSETS

Accruals and other assets mainly include collaterals, accrued income (non-interest related), prepayments, operational taxes and other accounts receivable as well as insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are measured in accordance with the applicable standard. Plan assets are recognised in accordance with IAS 19 (revised) requirements.

1.1.18. LEASES

A finance lease is one that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

1.1.18.1. Dexia Crédit Local is the lessee

Dexia Crédit Local grants operating leases principally for the rental of equipment or real estate. Lease rentals are recognised in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised. At inception the asset is recorded as the present value of the minimum lease payments or the fair value (whichever is the lower) and is depreciated over its estimated useful life unless the lease term is short and the title is not expected to be transferred to Dexia Crédit Local. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policies applicable to that asset. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

1.1.18.2. Dexia Crédit Local is the lessor

Dexia Crédit Local grants both operating and finance leases.

Revenue from operating leases is recognised in the income statement on a straight-line basis over the lease term. The underlying asset is accounted for in accordance with the accounting policies applicable to this type of asset.

For finance leases, Dexia Crédit Local recognises "leases receivable" at an amount equal to the net investment in the lease, which can be different from the present value of minimum lease payments.

The interest rate implicit in the lease contract acts as the discount rate. Interest income is recognised over the term of the lease using the interest rate implicit in the lease.

1.1.19. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

Securities sold subject to a linked repurchase agreement ("repos") are not derecognised because, despite the transfer of ownership of securities, there is no substantial transfer of risks and rewards and remain in their original category. The corresponding liability is entered under "Interbank borrowings and deposits" or "Customer borrowings and deposits", as appropriate. The asset is reported as "pledged" in the notes.

Securities purchased under agreements to resell ("reverse repos") are recorded as off-balance-sheet items and the corresponding loans recorded as "Interbank loans and advances" or "Customer loans and advances".

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method.

Securities lent to counterparties are not derecognised but, rather recorded in the financial statements in the same heading.

Securities borrowed are not recognised in the financial statements.

If they are sold to third parties, the gain or loss is entered under "Net gains (losses) on financial instruments at fair value through profit or loss" and the obligation to return them is recorded at fair value under "Financial liabilities at fair value through profit or loss".

1.1.20. DEFERRED INCOME TAX

Deferred income tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The principal temporary differences arise from the depreciation of property, plant & equipment, the revaluation of certain financial assets and liabilities (including derivative contracts, provisions for pensions and other post-retirement benefits), provisions for loan and other impairments and, in relation to

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acquisitions, from the difference between the fair value of the net assets acquired and their tax base.
The tax rates used are the rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.
Deferred tax assets and liabilities are not discounted. Deferred tax assets on deductible temporary differences and tax loss carry-forwards are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.
Deferred tax liability is provided on taxable temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Current and deferred taxes are recognised under "Corporate income tax" in the income statement. Interests on late payments related to income taxes are recognised in the interest margin in net banking income.
On the other hand, deferred tax related to the fair value remeasurement of available-for-sale investments and cash flow hedges, and other transactions recorded directly in equity, are also credited or charged directly to equity.

1.1.21. EMPLOYEE BENEFITS

1.1.21.1. Short-term benefits

Short-term benefits, payable before 12 months after the end of the annual reporting period in which the service is rendered, are measured on an undiscounted basis and recognised as an expense.
Employee entitlement to annual leave or long-service leave is recognised when it is granted to the employee. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

1.1.21.2. Post-employment benefits

If Dexia Crédit Local has a legal or constructive obligation to pay post-employment benefits, the plan is either classified as "defined benefit" or "defined contribution plan". Dexia Crédit Local offers a number of defined benefit and defined contribution plans, the assets of which are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both Dexia Crédit Local and its employees.
In some cases, Dexia Crédit Local provides post-retirement health care benefits to its retirees.

1.1.21.2.1. Defined benefit plans

Employee benefit obligations are measured at the present value of the estimated future cash outflows using the interest rates of AA-rated corporate bonds, which have terms to maturity approximating to the terms of the related liability. The valuation technique for the assessment of pension expenses incorporates actuarial assumptions comprising both demographic assumptions and financial assumptions such as the inflation rate.
For defined benefit plans, the cost is determined using the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to built up the final obligation.
The amount recognised in the balance sheet is the present value of the defined benefit obligation (i.e., the present value of the expected future payments required to settle the obligation resulting from the employee service in the current and prior periods), reduced by the fair value of plan assets at the balance-sheet date. The defined obligation is presented net of plan assets as a liability or an asset. Therefore, an asset may arise where a plan has been overfunded and are recorded separately if those assets are held by a Group entity. Any asset recognised is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding net interest) and any change in the effect of the asset ceiling (excluding net interest), they are recognised immediately in other comprehensive income and are not reclassified to profit or loss in a subsequent period.
Current service cost, past service cost (which is the change in the present value of the defined benefit obligation, resulting from a plan amendment or a curtailment) and any gain or loss on settlement are recognised in profit or loss.
Net interest on the net defined benefit liability (asset) is recognised in profit or loss. It is calculated by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset), both as determined at the start of the annual reporting period, and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
Qualified external actuaries carry out valuations of these defined benefit obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia Crédit Local that ensures that all calculations are harmonised and calculated in compliance with IAS 19 (as revised in 2011).

1.1.21.2.2. Defined contribution pension plans

Dexia Crédit Local's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. Under such plans, Dexia Crédit Local's obligations are limited to the contributions that Dexia Crédit Local agrees to pay into the fund on behalf of its employees.

1.1.21.2.3. Retirement termination payments

Retirement termination payments are treated as defined benefit plans.

1.1.21.3. Other long-term benefits

These mainly includes provisions for jubilee premiums that employees receive after completion of specified periods of service.
Unlike defined benefit plans, actuarial gains and losses relating to these benefits are immediately recognised. All past service costs are recognised immediately in the income statement.

1.1.21.4. Termination benefits

A termination benefit provision is recorded at the earlier of the following dates:
- when Dexia Crédit Local can no longer withdraw the offer of those benefits; and
- when Dexia Crédit Local recognises costs for a restructuring that involves the payment of termination benefits.

1.1.21.5. Share-based payment

Dexia Crédit Local offered equity-settled share-based payments like stock options plans (SOPs) and employee share purchase plans (ESPPs) and cash-settled share-based payments.

The fair value of equity-settled plans was measured at grant date by reference to the fair value of the underlying equity instrument based on valuation techniques and on market data and took into account market-based vesting conditions. The impact of other vesting conditions was reflected in the accounts via an adjustment of the number of equity instruments included in the measurement. The fair value, recognised as a remuneration expense, was credited against equity. In cash-settled share-based payments, the services received and the liability incurred, to pay for those services, were measured at the fair value of the liability. This fair value was measured at the grant date and at each reporting date until settled. The value was recognised as a remuneration expense with a corresponding increase in liabilities.

1.1.22. PROVISIONS

Provisions are mainly recognised for litigations claims, restructuring, and loan commitments.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognised when:

• Dexia Crédit Local has a present legal or constructive obligation as a result of past events;

• it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

• a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognised when there is uncertainty about the creditworthiness of the counterparty.

1.1.23. SHARE CAPITAL AND TREASURY SHARES

1.1.23.1. Share issue costs

External incremental costs directly attributable to the issue of new equity securities, other than as part of a business combination, are deducted from equity net of any related income tax.

1.1.23.2. Dividends on Dexia Crédit Local's ordinary shares

Dexia Crédit Local recognises its dividends on its ordinary shares as a liability from the date on which they are declared. Any dividends for the year declared post-balance-sheet date are disclosed in the subsequent events note.

1.1.24. RELATED-PARTY TRANSACTIONS

Two parties are considered to be related if one has the ability to control the other or exercises significant influence over the other party's financial policy or operational decisions or is a member of the key management personnel of the other party or of a parent. Transactions with companies accounted for by the equity method are reported, as are those with the Directors.

1.1.25. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with a maturity of less than 3 months maturity from the date of acquisition included within cash and balances with central banks, interbank loans and advances.

1.1.26. EARNINGS PER SHARE

The "Basic earnings per share" are calculated by dividing the net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by Dexia Crédit Local and held as treasury shares.

For the "Diluted earnings per share", the weighted average number of ordinary shares in issue and the net income are adjusted to assume conversion of all dilutive potential ordinary shares, such as the convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when the derivatives are "in the money" and their conversion to shares would decrease net earnings per share.

1.2. Ownership interest in subsidiaries and other entities

a. Criteria for consolidation and use of the equity method

The Dexia Crédit Local Group applies all rules with regard to the consolidation scope resulting from:

• IFRS 10 on the preparation and presentation of consolidated financial statements;

• IFRS 3 on business combinations and the impact of accounting methods on the consolidated accounts;

• IAS 28 (revised) on Investments in associates and joint ventures;

• IFRS 11 on Joint Arrangements.

The policies laid down by these standards imply that all companies over which the Group exercises exclusive or joint control or notable influence must be consolidated.

Consequently, all companies exclusively or jointly controlled, or over which the group holds a notable influence, are consolidated.

Pursuant to the principle of a true and fair view of the financial statements of the Group, any companies whose contribution to the consolidated financial statements is not material shall not be included in the consolidation scope.

Entities are considered as non-significant when, at consolidated level, the aggregate of their total asset, liabilities, equity and net income does not exceed 1% of the total of consolidated balance sheet and net income (respectively EUR 2.12 billion and EUR 4.20 million (average on 3 years) in 2016). As at 31 December 2016, the sum of the total balance sheet and net income of unconsolidated entities does not exceed this threshold.

b. Changes in the consolidation scope compared with 31 December 2015

Dexia Luxembourg and Dexia Real Estate Capital Markets were liquidated, respectively on December 29, 2016 and on December 23, 2016.

CBX IA1 transferred its assets to Dexia Crédit Local on December 1, 2016.

A cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell was completed on November 1, 2016. At the same time, two new branches of Dexia Crédit Local, named DCL Sucursal in España and DCL Sucursal em Portugal, started their activities.

c. Impact of changes in scope on the consolidated income statement

The impact of the evolution of the scope of consolidation in the consolidated income statement is not significant.

d. Scope of the Dexia Crédit Local Group as at 31 December 2016

All Group entities are managed in run-off, except Dexia Israel, in order to preserve the value of its commercial franchise with a view to its disposal.

A. Fully consolidated entities

		31 December 2015				31 December 2016			
Name	**Country**	**Method**	**Control rate**	**Interest rate**	**Ref**	**Method**	**Control rate**	**Interest rate**	**Ref**
PARENT COMPANY									
Dexia Crédit Local SA	France								
Dexia Crédit Local, Dublin Branch	Ireland	FC	100	100		FC	100	100	
DCL New York Branch	USA	FC	100	100		FC	100	100	
DCL Sucursal en España	Spain					FC	100	100	
DCL Sucursal em Portugal	Portugal					FC	100	100	
SUBSIDIARIES									
CBX.IA 1	France	FC	100	100					S1
CBX.IA 2 (1)	France	FC	100	100		FC	100	100	
Dexia CLF Banque	France	FC	100	100		FC	100	100	
Dexia CLF Régions Bail	France	FC	100	100		FC	100	100	
Dexia Crediop	Italy	FC	70	70		FC	70	70	
Dexia Crediop Ireland (2)	Ireland	FC	100	70		FC	100	70	
Dexia Delaware LLC	USA	FC	100	100		FC	100	100	
Dexia Financial Products Services LLC (4)	USA	FC	100	100		FC	100	100	
Dexia Flobail	France	FC	100	100		FC	100	100	
Dexia FP Holdings Inc (3)	USA	FC	100	100		FC	100	100	
Dexia Holdings, Inc	USA	FC	100	100		FC	100	100	
Dexia Israel Bank Ltd	Israel	FC	65.99	65.31		FC	65.99	65.31	
Dexia Kommunalbank Deutschland AG	Germany	FC	100	100		FC	100	100	
Dexia Luxembourg SA (ex Dexia LdG Banque SA)	Luxembourg	FC	100	100					S1
Dexia Real Estate Capital Markets	USA	FC	100	100					S1
Dexia Sabadell SA	Spain	FC	79.01	100					S3
FSA Asset Management LLC (4)	USA	FC	100	100		FC	100	100	
FSA Capital Management Services LLC (4)	USA	FC	100	100		FC	100	100	
FSA Capital Markets Services LLC (4)	USA	FC	100	100		FC	100	100	
FSA Global Funding LTD (3)	Cayman Islands	FC	100	100		FC	100	100	
FSA Portfolio Asset Limited (UK) (4)	UK	FC	100	100		FC	100	100	
Premier International Funding Co (5)	Cayman Islands	FC	0	0		FC	0	0	
Sumitomo Mitsui SPV	Japan	FC	100	100		FC	100	100	
Tevere Finance S.r.l (2)	Italy	FC	100	70		FC	100	70	
WISE 2006-1 PLC	Ireland	FC	100	100		FC	100	100	

(1) CBX.IA2 is 100% held by Dexia Crédit Local
(2) Companies consolidated by Dexia Crediop.
(3) Companies consolidated by Dexia Holdings Inc.
(4) Companies consolidated by Dexia FP Holdings Inc.
(5) Companies consolidated by FSA Global Funding Ltd.

Method *FC: Fully Consolidated*
Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds
S3: Company transformed into a branch of Dexia Crédit Local

B. Non fully consolidated subsidiaries and associated companies not accounted for by the equity method

	31 December 2015					31 December 2016				
Name	Country	Method	Control rate	Interest rate	Ref	Method	Control rate	Interest rate	Ref
CBX. GEST	France	not FC	100	100					S1
DCL Evolution	France	not FC	100	100		not FC	100	100	
Dexia Crédito Local México SA de CV	Mexico	not FC	100	100	S2	not FC	100	100	
Dexia Kommunalkredit Adriatic	Croatia	not FC	100	100		not FC	100	100	
Dexia Kommunalkredit Hungary	Hungary	not FC	100	100		not FC	100	100	
Dexia Kommunalkredit Romania	Romania	not FC	100	100		not FC	100	100	
Dexia Management Services Limited	UK	not FC	100	100	S2	not FC	100	100	
European public infrastructure managers	Luxembourg	not EM	20	20		not EM	20	20	
Genebus Lease	France	not FC	100	100		not FC	100	100	
Impax New Energy Investor	Luxembourg	not EM	24.99	24.99		not EM	24.99	24.99	
La Cité	France	not EM	25.50	25.50		not EM	25.50	25.50	
New Mexican Trust	Mexico	not FC	100	100		not FC	100	100	
Progetto Fontana (in liquidation)	Italy	not FC	100	100		not FC	100	100	
South European Infrastructure Equity Finance Ltd Partnership	Luxembourg	not EM	20.83	20.83		not EM	20.83	20.83	
SPS - Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo	Italy	not EM	20.40	14.28		not EM	20.40	14.28	

Ref *Out of scope*
S1: Cessation of activity (including dissolution, liquidation)
S2: Company deconsolidated since become below the thresholds

Method *FC: Fully Consolidated*
not FC: not Fully Consolidated
not EM: not accounted for by the Equity Method

Nature of the risks associated with an entity's interests in consolidated structured entities

As part of the sale of FSA to Assured Guaranty, Dexia Crédit Local retained the Financial Products activity and, generally, agreed to indemnify FSA and Assured Guaranty for any losses they may suffer in relation to that activity. The Financial Products activity includes the Global Funding business which includes a portion of the assets and liabilities of FSA Global Funding and of Premier International Funding Co.

Dexia Crédit Local did not provide, financial or other support to a consolidated structured entity when Dexia Crédit Local was not contractually obliged to do so, nor has an intention to do so in the future.

Dexia Crédit Local did not provide financial or other support resulted in the entity controlling the structured entity.

e. Significant restrictions on assets and liabilities of an entity

Following IFRS 12, Dexia Crédit Local provides the list of significant restrictions on its ability to access or use the assets and settle the liabilities of the Group.

The information regarding financial assets pledged as collateral for liabilities or contingent liabilities is presented in note 7.3.b.

The assets guaranteeing the secured debt issued by covered bonds entities and the guaranteed investment contracts are presented in note 7.3.b.

Certain assets held by Dexia Crédit Local and benefiting from a credit risk hedge in the form of a guarantee or even a CDS are subject to some legal restrictions, commonly called "Representation to Hold clauses"[(1)]

Some restrictions concern structured entities. They take the form of segregation of assets in order to satisfy the obligations of the issuer to the noteholders as well as requirement of agreement from the insurer or the guarantor.

Pursuant to the European Commission Decision of 28 December 2012, there is a general ban on the payment of any form of dividend by any subsidiary controlled directly or indirectly by Dexia, in particular when such a payment would entail mandatory payment of a coupon on Tier 1 hybrid instruments or Tier 2 instruments held by persons other than Dexia and its subsidiaries.

Regulated entities are required to comply with regulatory requirements applicable to them.

Furthermore, some regulators limit the ability of a subsidiary or branch under their supervision, to finance the parent company above a certain threshold.

f. Interest in unconsolidated structured entities

There are mainly a special purpose vehicle that was designed in order to provide clients with an access to a specific market dedicated to institutional investors and a securitization vehicle (FCC) of loans to customer. These vehicles are financed through issuance of notes.

(1) Guarantee contracts with monolines (or with banks acting as intermediary for monolines) contain "representation to hold clauses" which (more or less strictly) oblige the beneficiary to hold the guaranteed assets until the end-term of the guarantee.

Interests in unconsolidated structured entities (in EUR million)	Securitisation Special Purpose Entities	Other activities	Total
Derivatives	232		232
Debt securities	249	375	624
Loans and advances			
TOTAL	**481**	**375**	**856**
Total assets of unconsolidated structured entities	**750**	**355**	**1,105**

The maximum exposure to loss is the fair value of derivatives and the amortised costs of other instruments.

Dexia Crédit Local is considered to be a sponsor of a structured entity when it is primarily involved in the design and establishment of the structured entity and when it transferred assets to the structured entity or provided guarantees regarding the structured entity's performance. Dexia Crédit Local, as a run-off structure does not have income anymore from sponsored structure without interest in the entity as at 31 December 2016.

g. Subsidiaries with minority interests that are material

Minority interests are considered material when they represent more than 5% of equity group share or when minority interests represent more then 5% of total assets.

Dexia Crediop S.p.a	31/12/2015	31/12/2016
Percentage of ownership held by minority interests	30%	30%
Principle place of business	Italy	Italy
Accumulated minority interests (in EUR million)	293	284
Profit or loss allocated to minority interests (in EUR million)	1	(5)
Dividend paid to minority interests	0	0
Assets (in EUR million)	25,181	23,404
Liabilities (in EUR million)	24,203	22,459
Equity (in EUR million)	978	945
Net banking income (in EUR million)	74	70
Profit or loss (in EUR million)	5	(17)
Total comprehensive income (in EUR million)	55	(33)

1.3. Significant items included in the statement of income

Over the year 2016, Dexia Crédit Local posted a net income Group share of EUR +442 million.

The *Net gains and losses on financial instruments at fair value* reached EUR +275 million. The evolution of the valuation of collateralised derivatives on the basis of an OIS curve, of the counterparty risk on derivatives (Credit Valuation Adjustment et Debit Valuation Adjustment) and of the bid ask reserve on derivatives lead to the recognition of a positive impact of EUR 258 million. This impact amounted to EUR +518 million in 2015.

Furthermore, in accordance with the provisions of the IFRS 13 accounting standard and in line with market practices, the Dexia Group calculated, from June 2015, a *Funding Valuation Adjustment (FVA)* aimed measuring the funding costs associated with non-collateralised derivatives. The impact of the FVA on the 2016 consolidated financial statements amounted to EUR -57 millions (EUR -106 millions in 2015).

Also in *Net gains and losses on financial instruments at fair value*, the Dexia Crédit Local Group booked in 2016, a positive result of EUR 144 million as compensation related to the payment of negative interests while the contracts or the current legislation in force, allowed not to pay them. .

The evolution of own credit risk (OCR) generated a charge of EUR -36 million in the item.

The *Operating expenses*, at EUR -395 million included EUR -113 million in banking taxes and contributions to the resolution funds, in which an extraordinary contribution to the Italian Resolution Fund of EUR -25 million on top of the exceptional contribution of EUR -31 million already paid in 2015.

All of these levies and contributions were booked pursuant to the principles of the IFRIC1[(1)] 21 "Levies", applied by Dexia Crédit Local since 1st January 2015.

Driven by the reversal of the provision on Heta Asset Resolution AG, which amounted to EUR +136 million, the *Cost of risk* has a positive impact of EUR +138 million.

The *Net gains (losses)* on other assets, at EUR +56 million mainly benefited from the gain of EUR +50 million realised on the disposal of the CBX Tower in La Défense.

1.4. Post-balance-sheet events

Nil

(1) IFRIC: International Financial Reporting Interpretations Committee.

2. Notes on the assets

(Some amounts may not add up due to roundings off)

2.0. Cash and central banks (Item I - Assets)

(in EUR million)	31/12/2015	31/12/2016
Mandatory reserve deposits with central banks	184	293
Other central banks deposits	4,651	3,929
TOTAL	**4,835**	**4,222**
of which included in cash and cash equivalents	*4,835*	*4,222*

2.1. Financial assets at fair value through profit or loss (Item II - Assets)

This line includes both the portfolio held for trading and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.1 "Accounting policies and valuation methods").

(in EUR million)	31/12/2015	31/12/2016
Loans and securities	1,375	1,365
Derivatives (see note 4.1.b)	18,800	16,415
TOTAL	**20,175**	**17,780**

a. Analysis by counterparty of loans and securities at fair value through profit and loss

	31/12/2015			31/12/2016		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Banks	0	0	0	0	0	0
Other	1,375	1	1,375	1,365	0	1,365
TOTAL	**1,375**	**1**	**1,375**	**1,365**	**0**	**1,365**
of which included in finance leases						

b. Analysis by nature of loans and securities at fair value through profit and loss

	31/12/2015			31/12/2016		
(in EUR million)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Bonds issued by public bodies	0	0	0	0	0	0
Other bonds and fixed-income instruments	1,375	0	1,375	1,365	0	1,365
TOTAL	**1,375**	**0**	**1,375**	**1,365**	**0**	**1,365**

c. Treasury bills and other eligible bills for refinancing with central banks
Nil.

d. Securities pledged under repurchase agreements (repos)
Nil.

e. Analysis by maturity and interest rate: see notes 7.6. and 7.4.

f. Analysis of the fair value: see note 7.1.

g. Reclassification of financial assets (IAS 39 amended): see note 2.12.A.

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2.2. Financial assets available for sale (Item IV - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2015	31/12/2016
Public sector	13,368	9,238
Banks	5,158	3,937
Other	3,413	3,329
Performing assets	**21,939**	**16,504**
Impaired bonds issued by public bodies	0	0
Other impaired bonds and fixed-income instruments	212	0
Impaired equities and other variable-income instruments	133	92
Impaired assets	**345**	**92**
TOTAL ASSETS BEFORE IMPAIRMENT	**22,285**	**16,595**
Specific impairment	(148)	(47)
TOTAL ASSETS AFTER IMPAIRMENT	**22,137**	**16,548**

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Bonds issued by public bodies	10,840	7,142
Other bonds and fixed-income instruments	11,145	9,196
Equities and other variable-income instruments	299	257
TOTAL ASSETS BEFORE IMPAIRMENT	**22,285**	**16,595**
Specific impairment	(148)	(47)
TOTAL ASSETS AFTER IMPAIRMENT	**22,137**	**16,548**

c. Convertible bonds included in the available for sale portfolio (positions higher than EUR 50 million)
Nil.

d. Analysis by maturity and interest rate: see notes 7.6 et 7.4

e. Analysis of fair value: see note 7.1

f. Analysis of quality: see note 2.11

g. Impact analysis on portfolio reclassification (IAS39 amended) and transfers to financial assets held to maturity: see note 2.12.

h. Reclassification of financial assets (IAS 39 amended): see note 2.12.

2.3. Interbank loans and advances (Item V - Assets)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Nostri accounts	503	529
Reverse repurchase agreements *(reverse repos)*	2,618	2,939
Other interbank loans and advances	1,662	1,243
Debt instruments	2,672	2,435
Performing assets	**7,456**	**7,146**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**7 456**	**7,146**
Collective impairment	(24)	(37)
TOTAL ASSETS AFTER IMPAIRMENT	**7,433**	**7,109**
of which included in cash and cash equivalents	*491*	*1,342*

b. Analysis by maturity and interest rate: see notes 7.6. et 7.4.

c. Analysis of fair value: see note 7.1.

d. Analysis of quality: see note 2.11.

e. Reclassification of financial assets (IAS39 amended): see note 2.12.A

2.4. Customer loans and advances (Item VI - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2015	31/12/2016
Public sector	80,589	77,629
Other	46,426	40,887
Performing assets	**127,015**	**118,516**
Impaired loans and advances	1,072	854
Impaired debt instruments	246	208
Impaired assets	**1,318**	**1,062**
TOTAL ASSETS BEFORE IMPAIRMENT	**128,333**	**119,578**
Specific impairment	(456)	(319)
Collective impairment	(394)	(376)
TOTAL	**127,484**	**118,882**
of which included in finance leases	*1,455*	*1,318*

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Loans and advances	73,773	68,314
Debt instruments	53,242	50,202
Performing assets	**127,015**	**118,516**
Impaired loans and advances	1,072	854
Impaired debt instruments	246	208
Impaired assets	**1,318**	**1,062**
TOTAL ASSETS BEFORE IMPAIRMENT	**128,333**	**119,578**
Specific impairment	(456)	(319)
Collective impairment	(394)	(376)
TOTAL ASSETS AFTER IMPAIRMENT	**127,484**	**118,882**
of which included in finance leases	*1,455*	*1,318*

c. Analysis by maturity and interest rate: see notes 7.6. and 7.4.

d. Analysis of fair value: see note 7.1.

e. Analysis of quality: see note 2.11.

Reclassification of financial assets (IAS39 amended): see note 2.12.A

2.5. Financial assets held to maturity (Item VIII - Assets)

a. Analysis by counterparty

(in EUR million)	31/12/2015	31/12/2016
Public sector	174	1,911
Other	26	7
Performing assets	**199**	**1,918**
Impaired assets	**0**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**199**	**1,918**
Specific impairment	0	0
Collective impairment	0	0
TOTAL ASSETS AFTER IMPAIRMENT	**199**	**1,918**

b. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Bonds issued by public bodies	158	1,911
Other bonds and fixed-income instruments	41	7
TOTAL ASSETS BEFORE IMPAIRMENT	**199**	**1,918**
Specific impairment	0	0
Collective impairment	0	0
TOTAL ASSETS AFTER IMPAIRMENT	**199**	**1,918**

c. Analysis by maturity and interest rate: see notes 7.6 and 7.4

d. Analysis of fair value: see note 7.1

e. Analysis of quality: see note 2.11

f. Impact analysis transfert of financial assets from available for sale to held to maturity: see note 2.12.B

2.6. Tax assets (Items IX and X - Assets)

(in EUR million)	31/12/2015	31/12/2016
Current tax assets	39	28
Deferred tax assets (see note 4.2)	35	32

2.7. Accruals and other assets (Items XI - Assets)

(in EUR million)	31/12/2015	31/12/2016
Other assets	1,448	248
Cash collateral	36,891	36,632
TOTAL	**38,339**	**36,880**

Other assets

Analysis by nature (in EUR million)	31/12/2015	31/12/2016
Accrued income	6	0
Deferred expense	5	8
Other accounts receivable	1,419	233
Other taxes	17	6
Performing assets	**1,448**	**247**
Impaired assets	**2**	**2**
TOTAL ASSETS BEFORE IMPAIRMENT	**1,450**	**249**
Specific impairment	(2)	(2)
TOTAL ASSETS AFTER IMPAIRMENT	**1,448**	**248**

2.8. Tangible fixed assets (Items XV - Assets)

a. Net book value

	Land and buildings	Office furniture and other equipment	Total
(in EUR million)	Own use owner	Own use owner	
Acquisition cost as at 1 Jan. 2015	**396**	**70**	**466**
- Acquisitions	1	1	2
- Disposals	(49)	(23)	(72)
- Change in scope of consolidation (out)	0	0	(1)
- Translation adjustments	1	3	3
Acquisition cost as at 31 Dec. 2015 (A)	**348**	**51**	**398**
Accumulated depreciation and impairment as at 1 Jan. 2015	**(77)**	**(59)**	**(136)**
- Depreciation booked	(7)	(3)	(10)
- Disposals	19	23	42
- Change in scope of consolidation (out)	0	0	0
- Translation adjustments	0	(2)	(2)
Accumulated depreciation and impairment as at 31 Dec. 2015 (B)	**(66)**	**(41)**	**(106)**
Net book value as at 31 Dec. 2015 (A)+(B)	**282**	**10**	**292**

(in EUR million)	Land and buildings Own use owner	Office furniture and other equipment Own use owner	Total
Acquisition cost as at 1 Jan. 2016	**348**	**51**	**398**
- Disposals[1]	(329)	(3)	(332)
- Transfers and cancellations	0	(1)	(1)
- Translation adjustments	0	1	1
Acquisition cost as at 31 Dec. 2016 (A)	**19**	**49**	**68**
Accumulated depreciation and impairment as at 1 Jan. 2016	**(66)**	**(41)**	**(106)**
- Depreciation booked	0	(3)	(3)
- Disposals[1]	53	3	56
- Transfers and cancellations	0	1	1
- Translation adjustments	0	(1)	(1)
Accumulated depreciation and impairment as at 31 Dec. 2016 (B)	**(13)**	**(41)**	**(53)**
Net book value as at 31 Dec. 2016 (A)+(B)	**6**	**8**	**15**

(1) Disposal of CBX Tower in La Défense.

b. Fair value of investment property

Nil.

c. Capitalised expenditures for the construction of tangible fixed assets

Nil.

d. Contractual obligations relating to investment property at the end of the period

Nil.

e. Contractual obligations relating to property, plant and equipment at the end of the period

Nil.

2.9. Intangible assets (Items XVI - Assets)

	2015			2016		
(in EUR million)	Internally developed software	Other intangible assets[1]	Total	Internally developed software	Other intangible assets[1]	Total
Acquisition cost as at 1st January	**158**	**129**	**287**	**91**	**106**	**198**
- Acquisitions	18	3	21	13	5	17
- Disposals	(85)	(28)	(113)	0	0	0
- Translation adjustments	0	2	2	0	1	1
Acquisition cost as at 31 December (A)	**91**	**106**	**198**	**104**	**112**	**215**
Accumulated depreciation and impairment as at 1st January	**(146)**	**(118)**	**(264)**	**(74)**	**(97)**	**(171)**
- Booked	(6)	(6)	(12)	(7)	(6)	(12)
- Disposals	78	29	107	0	0	0
- Translation adjustments	0	(2)	(2)	0	(1)	(1)
Accumulated depreciation and impairment as at 31 December (B)	**(74)**	**(97)**	**(171)**	**(81)**	**(103)**	**(184)**
Net book value as at 31 December (A)+(B)	**17**	**9**	**26**	**23**	**9**	**32**

(1) Other intangible assets include primarily purchased software.

2.10. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (in EUR million)	**31/12/2015**	**31/12/2016**
Less than 1 year	111	81
1 year to 5 years	375	361
Over 5 years	968	873
Subtotal (A)	**1,454**	**1,316**
Unearned future finance income on finance leases (B)	0	0
Net investment in finance leases (A)-(B)	**1,454**	**1,316**

Additional information (in EUR million)	**31/12/2015**	**31/12/2016**
Estimated fair value of finance leases	1,453	1,316

Operating leases

Future net minimum lease receivables under operating leases (in EUR million)	**31/12/2015**	**31/12/2016**
Less than 1 year	5	0
1 year to 5 years	2	0
Over 5 years	1	0
TOTAL	**7**	**0**

b. Group as lessee

Finance leases

Nil.

Operating leases

Future net minimum lease payments under non-cancellable operating leases (in EUR million)	**31/12/2015**	**31/12/2016**
Less than 1 year	7	19
1 year to 5 years	19	62
TOTAL	**26**	**82**
Future minimum sublease payments expected to be received under non-cancelable subleases at the balance sheet date	1	1

Lease and sublease payments recognized as expenses during the year (in EUR million)	**31/12/2015**	**31/12/2016**
Minimum lease payments	4	18
Contingent lease payments	1	1
Sublease payments	(1)	(1)
TOTAL	**4**	**18**

2.11. Quality of financial assets

(in EUR million)	**31/12/2015**	**31/12/2016**
Analysis of performing financial assets		
Interbank loans and advances	7,456	7,146
Customer loans and advances	127,015	118,516
Financial assets held to maturity	199	1,918
Financial assets available-for-sale	21,939	16,503
Fixed revenue instruments	*21,773*	*16,338*
Variable revenue instruments	*166*	*165*
Other accounts receivable and other assets (note 2.7)	1,419	233
TOTAL PERFORMING FINANCIAL ASSETS	**158,029**	**144,316**
Collective impairment	(417)	(413)
NET TOTAL PERFORMING FINANCIAL ASSETS	**157,612**	**143,903**

	Gross amount		Specific Impairment		Net amount	
(in EUR million)	31/12/2015	31/12/2016	31/12/2015	31/12/2016	31/12/2015	31/12/2016
Analysis of impaired financial assets						
Customer loans and advances	1,318	1,062	(456)	(319)	862	743
Financial assets available-for-sale	345	92	(148)	(47)	198	45
Fixed revenue instruments	*212*	*0*	*(98)*	*0*	*114*	*0*
Variable revenue instruments	*133*	*92*	*(50)*	*(47)*	*83*	*45*
Other accounts receivable and other assets (note 2.7)	2	2	(2)	(2)	0	0
TOTAL	**1,666**	**1,155**	**(606)**	**(367)**	**1,060**	**788**
Analysis of performing and impaired financial assets						
Interbank loans and advances	7,456	7,146	0	0	7,456	7,146
Customer loans and advances	128,334	119,578	(456)	(319)	127,877	119,258
Financial assets held to maturity	199	1,918	0	0	199	1,918
Financial assets available-for-sale	22,285	16,595	(148)	(47)	22,137	16,548
Fixed revenue instruments	*21,985*	*16,338*	*(98)*	*0*	*21,887*	*16,338*
Variable revenue instruments	*299*	*257*	*(50)*	*(47)*	*249*	*210*
Other accounts receivable and other assets (note 2.7)	1,421	235	(2)	(2)	1,419	233
TOTAL FINANCIAL ASSETS	**159,695**	**145,472**	**(606)**	**(367)**	**159,088**	**145,104**
Collective impairment					(417)	(413)
NET TOTAL	**159,695**	**145,472**	**(606)**	**(367)**	**158,671**	**144,691**

2.12. Reclassification of financial assets (IAS 39 amended) and transfers of financial assets available for sale to financial assets held to maturity

A. Reclassification of financial assets (IAS 39 amended)

On 1 October 2008, Dexia Crédit Local decided to apply the amendment of IAS 39 and IFRS 7 "Reclassification of Financial Assets" for some assets, and opted to reclassify certain assets from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", as well as from "Financial assets available for sale" to "Loans and advances".

On 1st October 2014, Dexia Crédit Local also reclassified bonds from "Financial assets available for sale" to "Loans and advances".

Figures are those of the consolidated companies at the date of reclassification of the assets and still in the scope of consolidation at the closing date.

	31/12/2015						
(in EUR million)	Carrying amount of assets reclassified, at the date of reclassification	Carrying amount of reclassified assets as December 31, 2015	Fair value of reclassified assets as at December 31, 2015	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS Reserve due to reclassification	Premium/Discount amortisation through net income	Premium/Discount amortisation through AFS reserve
From "Financial assets held for trading" to "Loans and advances"	3,565	1,589	1,488	(101)		4	
From "Financial assets available for sale" to "Loans and advances"	50,120	44,917	41,783		(3,134)		176

	31/12/2016						
(in EUR million)	Carrying amount of assets reclassified, at the date of reclassification	Carrying amount of reclassified assets as December 31, 2016	Fair value of reclassified assets as at December 31, 2016	Amount not taken through profit or loss due to reclassification	Amount not taken through AFS Reserve due to reclassification	Premium/Discount amortisation through net income	Premium/Discount amortisation through AFS reserve
From "Financial assets held for trading" to "Loans and advances"	3,565	1,109	1,048	(61)		2	
From "Financial assets available for sale" to "Loans and advances"	50,120	43,089	39,194		(3,895)		150

IMPACT OF THE RECLASSIFICATION ON EQUITY AND RESULT

a. Transfer from "Financial assets held for trading" to "Loans and advances"

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is disclosed in the column "Premium/discount amortisation through profit or loss".

At closing date, the difference between the carrying amount of reclassified assets and their fair value represents the cumulative changes in fair value from reclassification date until the closing date. It also includes the cumulative amortisation of the premium or discount since reclassification. In 2016 as well as in 2015, the difference is negative as spreads have increased.

b. Transfer from "Financial assets available for sale" to "Loans and advances"

The Dexia Crédit Local Group's available-for-sale portfolio is very specific as it consists of securities with very long maturities, resulting in significant changes in value following small shifts in spreads. The impact of the transfer on the cost of risk consists in the net amount of accruals and use of collective as well as specific provisions.

In 2016, a EUR 14 million income was recorded as collective impairment (in 2015, an income of EUR 21 million).

When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the carrying amount and the net present value of expected future cash flows, discounted at the effective interest rate as at the reclassification date is recognised as an impairment loss. Consequently, any unamortised outstanding amount recognised in the available-for-sale reserve is also recognised as an impairment loss. This category mainly includes non-economic losses that would have been reversed in the future through net interest income.

The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets.

c. Impact of reclassifications on the interest margin

For assets transferred from "Financial assets available for sale" to "Loans and advances", the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, without any resulting impact on net interest income.

The impact on the interest margin due to reclassification of "Financial assets held for sale" to "Loans and advances" amounts to EUR 2 million in 2016 (EUR 4 million in 2015).

B. Transfers of financial assets available for sale to financial assets held to maturity

Begin December 2016, the Group transfered certain sovereign bonds from the category "Financial assets available for sale" to the category "Financial assets held to maturity", for which it had a clear change of intent and ability to hold them until their maturity. The reclassifications were made at the fair value of the assets at the reclasification date. The effective interest rate at reclassification date ranged from 1.4 % to 8.0 %.

The reimbursement amount of those assets reclassified amounted to EUR 1.5 billion. If those financial assets had not been reclassified, a negative amount of EUR -42 million would have been recognised for those assets, in shareholders'equity, in "Gains and losses directly recognised in equity".

A gross amount of EUR 577 million of available for sale reserve was frozen and will be amortised on the residual maturity of the assets, without any impact in profit and loss. Indeed, the amortisation of the premium/discount on the asset is offset by the symetrical amortisation of the fair value reserve frozen at the time of reclassification. As at 31 December 2016, this amortization amounted to EUR 2 million.

(en millions d'EUR)	Carrying amount of assets transfered, at the reclassification date	Carrying amount of transferd assets at 31 December 2016	Fair value of transfered assets at 31 December 2016	Amount not taken through AFS reserve due to transfer	Amortisation of premium/discount in gains and losses directly recognised in equity
	1,696	1,699	1,657	(42)	2

2.13. Transfer of financial assets

The Dexia Crédit Local enters into transactions as repurchase agreements, securities lending agreements or total return swaps, in which the Group transfers financial assets, mainly loans and advances or debt securities, but retains substantially all of the risks and rewards.
Due to this retention, the transferred financial assets are not derecognised and the transfers are accounted for as secured financing transactions.

	31/12/2015		31/12/2016	
(in EUR million)	Carrying amount of assets	Carrying amount of associated liabilities	Carrying amount of assets	Carrying amount of associated liabilities
Loans and advances not derecognised due to following transactions:				
Repurchase agreements	22,451	20,293	19,258	18,206
TOTAL	**22,451**	**20,293**	**19,258**	**18,206**
Financial assets available for sale not derecognised due to following transactions:				
Repurchase agreements	12,497	12,123	11,252	11,119
TOTAL	**12 ,497**	**12,123**	**11,252**	**11,119**
Financial assets held for trading not derecognised due to following transactions:				
Repurchase agreements	**17**	**16**		
TOTAL	**17**	**16**	**0**	**0**
TOTAL	**34,965**	**32,432**	**30,510**	**29,325**

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3. Notes on the liabilities

(some amounts may not add up due to roundings off)

3.0. Central banks (Item I - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Central banks[1]	15,932	690
TOTAL	15,932	690

(1) Given the scarcity of interbank liquidity, the Group still used in 2015 the refinancing facilities offered by central banks. As the situation of the Group improved in 2016, the use of these facilities form Central Banks was no longer necessary and this more expensive source of financing was therefore reduced.

3.1. Financial liabilities at fair value through profit or loss (Item II - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Liabilities designated at fair value	1,986	1,797
Derivatives (see note 4.1)	20,792	16,878
TOTAL	22,778	18,675

a. Analysis by nature of liabilities held for trading

Nil.

b. Analysis by nature of liabilities designated at fair value

(in EUR million)	31/12/2015	31/12/2016
Non subordinated liabillities	1,986	1,797
TOTAL	1,986	1,797

c. Analysis by maturity and interest rate: see note 7.4. and 7.6.

d. Analysis of fair value: see note 7.1. and 7.2.h for the own credit risk.

The "Fair Value Option" (FVO), for financial liabilities is mainly used in the following situations:

1) by Dexia Financial Products Inc and FSA Global Funding Ltd for liabilities where the hedge accounting requirements are not met or there is a risk that they will not be met, the FVO is used as an alternative in order to reduce volatility in profit or loss.

The following types of liabilities are subject to the FVO classification:

a) Fixed rate liabilities that are highly customised funding contracts tailored to the specific needs of the investor (GIC activities).

Regarding collaterised liabilities by assets, the DVA spread is the average of spreads of collateral given as guarantee. Regarding non secured liabilities, they benefit from both Dexia and Assured monoliner's guarantee. In this case, the own credit spread is the lower of Dexia DVA spread and the Assured Guaranty spread.

b) FSA Global Funding fixed rate liabilities.

The own credit spread is Dexia's DVA spread.

2) in case of issuance of debt with embedded derivatives.

3.2. Interbank borrowings and deposits (Item IV - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Demand deposits	8	21
Repurchase agreements	34,736	30,647
Other debts	14,825	10,182
TOTAL	49,569	40,850

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.3. Customer borrowings and deposits (Item V - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Demand deposits	1,533	1,955
Term deposits	5,834	4,807
Total customer deposits	**7,367**	**6,762**
Repurchase agreements	435	2,614
Other borrowings	1,596	1,402
Total customer borrowings	**2,032**	**4,016**
TOTAL	**9,399**	**10,778**

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.4. Debt securities (Item VI - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Certificates of deposit	14,907	13,609
Non-convertible bonds(1)	76,625	84,915
TOTAL (2) (3)	**91,532**	**98,524**

(1) As at 31 December 2016, the amount of covered bonds was EUR 17.6 billion (EUR 19.3 billion in 2015)
(2) As at 31 December 2016, the total amount issued with the State guarantee was EUR 71.4 billion (EUR 61.2 billion in 2015). In 2016, there were no more acquisitions or subscriptions by Group companies. In 2015, EUR 300 million have been purchased or subscribed by Group companies.
(3) The implementation of the orderly resolution plan has given rise to a dispute with a creditor of Dexia Crédit Local, formerly affiliated with the Group and currently in liquidation.
The creditor has alleged that one of the main disposals by the Group – on the terms required by the orderly resolution plan – has triggered an event of default in respect of the notes held by it.
Dexia Crédit Local considers this allegation to be without merit and will contest it vigorously.

b. Analysis by maturity and interest rate: see note 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

3.5. Tax liabilities (Item VIII and IX - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Current tax liabilities	2	7
Deferred tax liabilities (see note 4.2.)(1)	88	58

(1) The main source of the decrease is the losses related to the transfer of assets to Dexia Crédit Local Paris in the framework of closure and decrease in the activity of the Group's subsidiaries and branches.

3.6. Accruals and other liabilities (Item X - Liabilities)

(in EUR million)	31/12/2015	31/12/2016
Other liabilities	1,296	467
Cash collateral	4,812	3,966
TOTAL	**6,108**	**4,434**

Other liabilities

(in EUR million)	31/12/2015	31/12/2016
Accrued costs	37	27
Deferred income	46	24
Grants	70	64
Other assistance received	2	0
Salaries and social charges (payable)	10	9
Other taxes	17	15
Other accounts payable and other liabilities	1,114	328
TOTAL	**1,296**	**467**

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3.7. Provisions (Item XIII - Liabilities)

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Litigation claims[1]	202	237
Restructuring	7	5
Defined benefit plans	9	10
Other long-term employee benefits	2	5
Provision for off-balance sheet credit commitments	6	4
Onerous contracts	3	2
TOTAL	229	264

(1) This item includes a provision related to desensitisation of structured credits in France.

b. Movements

(in EUR million)	Litigation claims [1]	Restruc-turing	Pensions and other employee benefits	Provision for off-balance sheet credit commit-ments	Onerous contracts	Other provisions	Total
AS AT 01/01/2015	212	7	17	7	4	10	257
Additions	36	3	2	0	0	0	41
Unused amounts reversed	(47)	(8)	(1)	(1)	0	(1)	(57)
Amounts utilized during the year	0	(3)	(1)	0	(1)	0	(5)
Actuarial gains and losses	0	0	(7)	0	0	0	(7)
Change in consolidation scope (out)	0	(1)	0	0	0	(1)	(2)
Other transfers	0	8	0	0	0	(8)	0
Translat ion adjustment	1	0	0	0	0	0	1
AS AT 31/12/2015	202	7	11	6	3	0	229

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

(in EUR million)	Litigation claims [1]	Restruc-turing	Pensions and other employee benefits	Provision for off-balance sheet credit commit-ments	Onerous contracts	Other provisions	Total
AS AT 01/01/2016	202	7	11	6	3	0	229
Additions	73	3	5	1	0	0	83
Unused amounts reversed	(38)	(4)	(2)	(3)	0	0	(47)
Amounts utilized during the year	0	(1)	(3)	0	(1)	0	(5)
Actuarial gains and losses	0	0	3	0	0	0	3
AS AT 31/12/2016	237	5	15	4	2	0	264

(1) We refer to the section Litigation in the chapter Risk Management of the Management Report.

c. Provisions for pension and other long term benefits

After the sale of most of its operating subsidiaries, Dexia Crédit Local holds only several subsidiaries with significant staff number in a few countries. Except commitments for legal pension and for defined contribution plans, commitments for defined benefit plans are limited.
They mainly concern retirement allowances in France, pension plans in Italy.

Due to the downsizing of the group, the commitments decrease accordingly and the DBO (defined benefit obligation, long-term employee benefits and post-retirement obligations) represents less than 5% of consolidated equity. The amount of actuarial liabilities less the fair value of assets for retirement and other employee benefits is EUR 15 million as at 31 December 2016 and 11 million as at 31 December 2015.

3.8. Subordinated debt (Item XIV - Liabilities)

a. Analysis by nature

Convertible subordinated debt

Nil.

Non-convertible subordinated debts

(in EUR million)	31/12/2015	31/12/2016
Perpetual subordinated notes	0	0
Other subordinated notes	492	482
TOTAL	**492**	**482**

b. Analysis by maturity and interest rate: see notes 7.4. and 7.6.

c. Analysis of fair value: see note 7.1.

d. Detailed information

Currency	Due	Amount in million	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Interest rate (%)
EUR	12/02/19	106.4	a) Possible reimbursement for each date of payment on interest from 12/02/2014 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	TF 4.375 From 12/02/14 Euribor 3M+72bps
EUR	9/07/17	252.1	a) Possible reimbursement for each date of payment on interest from 09/07/2012 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	EURIBOR 3M +0.15 From 09/07/2012, EURIBOR 3M +0.65
EUR	29/10/18	19.7	a) Possible reimbursement for each date of payment on interest from 02/07/2013 after agreement of the ACPR b) Repayment at par after all creditors, but before loans and securities c) None	EURIBOR 3M +0.15 From 02/07/2013, EURIBOR 3M +0.5
EUR	1/06/17	10.98	a) No early redemption b) No specific conditions c) None	5.080
EUR	1/06/17	8.7	a) No early redemption b) No specific conditions c) None	4.875
EUR	1/06/18	15.7	a) No early redemption b) No specific conditions c) None	5.570
EUR	1/06/18	8.6	a) No early redemption b) No specific conditions c) None	5.625
ILS	1/01/19	150.0	a) No possibility for Dexia Israel to early repay the bonds, except following prior and written agreement of the Bank of Israel. In case of default, there is an acceleration clause for the investors but subject to the subordination clause. b) The deferred bonds are not used as deposits and the rights attached to them are deferred from the claims of all other creditors except for the rights of creditors with similar deferred bonds. The deferred bonds shall not be pledged as a collateral for a loan granted by Dexia Israel Bank nor its subsidiaries and they are not insured with collaterals. No early redemption and no changes in the terms can be implemented unless a prior and written agreement was received from the Bank of Israel. c) None	4.85 linked to CPI

Currency	Due	Amount in million	a) Circumstances for early redemption b) Conditions for subordination c) Conditions for convertibility	Interest rate (%)
GBP	15/10/58	11.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	LIBOR +0.3 From 15/01/2022 LIBOR +0.58
GBP	15/10/58	5.5	**a) Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: (i) at the option of the Issuer following the occurrence of a Tax Redemption Event; (ii) at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) None	LIBOR +0.39 From 15/01/2022 LIBOR +0.76

3.9 Information on Equity

a. Capital stock

The Extraordinary shareholder's meeting of Dexia Crédit Local, as of 28 June 2016 acted a capital increase in cash for the amount of EUR 250 million by the issuance of new shares maintaining the preferential susbscription rights of the shareholders.

Dexia Crédit Local's share capital thus increase from EUR 223,657,776 to EUR 279,213,332 by the issuance of 55,555,555 new shares with a nominal value of EUR 1, at a unit price of EUR 4.5 with a share issue premium of EUR 3.5.

b. Super-subordinated perpetual note

In 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes. The residual outstanding amounts to EUR 56 million.

c. Other movements

In 2015, other movements in equity amounted to EUR +24 million and were due to the review of the positioning of cancelation of the results on internal transfers.

In 2016, there are no other movements.

4. Other Notes on the balance sheet

(some amounts may not add up due to roundings off)

4.1. Derivatives

a. Analysis by nature

	31/12/2015		31/12/2016	
(in EUR million)	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)	**18,800**	**20,792**	**16,415**	**16,878**
Derivatives designated as fair value hedges	5,774	26,364	6,151	29,306
Derivatives designated as cash flow hedges	229	1,128	199	1,805
Derivatives designated as portfolio hedges	669	2,486	480	2,685
Hedging derivatives	**6,672**	**29,978**	**6,830**	**33,796**
TOTAL DERIVATIVES	**25,472**	**50,770**	**23,245**	**50,674**

b. Detail of derivatives at fair value through profit or loss

	31/12/2015				31/12/2016			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**207,904**	**207,443**	**16,972**	**19,760**	**215,260**	**214,243**	**14,990**	**15,722**
OTC options	736	481	28	19	1,239	470	7	23
OTC other	203,918	203,791	16,944	19,734	213,434	213,505	14,983	15,699
Organized market other	3,250	3,171	0	7	587	268	0	0
Foreign exchange derivatives	**17,462**	**17,351**	**1,130**	**865**	**21,862**	**22,071**	**949**	**1,001**
OTC options	0	0	0	0	302	302	54	55
OTC other	17,462	17,351	1,130	865	21,560	21,769	895	946
Credit derivatives	**4,999**	**1,537**	**699**	**166**	**4,297**	**1,355**	**475**	**155**
Credit default swap	4,999	1,537	699	166	4,297	1,355	475	155
TOTAL	**230,366**	**226,331**	**18,800**	**20,792**	**241,419**	**237,669**	**16,415**	**16,878**

c. Detail of derivatives designated as fair value hedges

	31/12/2015				31/12/2016			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**97,233**	**97,187**	**5,499**	**25,227**	**105,900**	**105,945**	**5,512**	**27,798**
OTC options	65	17	0	6	54	16	0	6
OTC other	97,168	97,170	5,499	25,221	105,846	105,929	5,512	27,792
Equity derivatives (1)	**201**	**110**	**67**	**0**	**10**	**10**	**1**	**0**
OTC options	91	0	62	0	0	0	0	0
OTC other	110	110	5	0	10	10	1	0
Foreign exchange derivatives	**8,996**	**9,007**	**207**	**1,137**	**7,851**	**7,830**	**638**	**1,509**
OTC other	8,996	9,007	207	1,137	7,851	7,830	638	1,509
TOTAL	**106,430**	**106,304**	**5,773**	**26,364**	**113,761**	**113,785**	**6,151**	**29,306**

(1) This position includes hedging derivatives for securities with revenues partly linked to the evolution of a basket of shares.

d. Detail of derivatives designated as cash flow hedges

	31/12/2015				31/12/2016			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Interest rate derivatives	**3,141**	**3,141**	**162**	**661**	**3,373**	**3,393**	**49**	**1,243**
OTC other	3,141	3,141	162	661	3,373	3,393	49	1,243
Foreign exchange derivatives	**1,123**	**1,283**	**66**	**468**	**1,102**	**1,088**	**150**	**563**
OTC other	1,123	1,283	66	468	1,102	1,088	150	563
TOTAL	**4,264**	**4,424**	**229**	**1,128**	**4,475**	**4,481**	**199**	**1,805**

e. Detail of derivatives designated as hedges of a net investment in a foreign entity

Nil.

f. Detail of derivatives designated as portfolio hedges

	31/12/2015				31/12/2016			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(in EUR million)	To receive	To deliver			To receive	To deliver		
Portfolio fair value hedges of interest rate risk	30,196	30,196	669	2,486	16,442	16,466	480	2,685
TOTAL	**30,196**	**30,196**	**669**	**2,486**	**16,442**	**16,466**	**480**	**2,685**

4.2. Deferred taxes

a. Analysis by nature

(in EUR million)	31/12/2015	31/12/2016
Deferred tax assets	2,686	2,080
Unrecognised deferred tax assets	(2,651)	(2,048)
Recognised deferred tax assets (see note 2.6) (1)	**35**	**32**
Deferred tax liabilities (voir note 3.5) (1)	**(88)**	**(58)**
TOTAL	**(52)**	**(26)**

(1) Deferred tax assets and liabilities are netted out when they concern the same tax entity.

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in note 5.11 "Income tax" and in the "Consolidated statement of comprehensive income" respectively.

b. Movements

(in EUR million)	2015	2016
AS AT 1 JANUARY	**(22)**	**(52)**
Charge/credit recognised in the income statement : "Income tax"(2)	(41)	8
Movements directly recognized in shareholders' equity	(13)	21
Translation adjustment	(3)	(2)
Other movements(1)	26	(1)
AS AT 31 DECEMBER	**(52)**	**(26)**

(1) In 2015, the review of the positioning of cancellation of the results on internal transfers generated a variation of EUR 25 million.
(2) In 2016, the main source of the increase is the losses related to the transfer of assets to Dexia Crédit Local Paris in the framework of closure and decrease in the activity of the Group's subsidiaries and branches.

c. Deferred taxes

(in EUR million)	31/12/2015	31/12/2016
Deferred tax assets	2,686	2,080
Deferred tax liabilities	(88)	(58)
DEFERRED TAXES	**2,598**	**2,022**

Deferred taxes coming from assets	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Loans (and loan loss provisions)	(1,382)	108	(3,249)	(707)
Securities	(1,298)	192	(1,844)	(681)
Derivatives	(1,537)	(185)	(1,251)	96
Tangible fixed assets and intangible assets	(10)	1	2	12
Accruals and other assets	6	2	4	(2)
TOTAL	**(4,221)**	**118**	**(6,338)**	**(1,282)**

Deferred taxes coming from liabilities	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Derivatives	3,590	114	5,062	339
Borrowings, deposits and debt securities	1,472	(275)	1,407	7
Provisions	210	143	209	(1)
Pensions	5	2	5	
Non-deductible provisions		(22)	(12)	(12)
Accruals and other liabilities	(109)	(22)	(115)	(3)
TOTAL	**5,169**	**(61)**	**6,556**	**330**

Deferred taxes coming from other elements	2015		2016	
(in EUR million)	Total	of which, change through profit or loss	Total	of which, change through profit or loss
Tax losses carried forward	1,657	(6)	1,805	180
Entity with special tax status	(6)	9	(1)	5
TOTAL	**1,651**	**3**	**1,804**	**185**

	2015	2016
TOTAL DEFERRED TAXES	**2,599**	**2,022**

d. Expiry date of unrecognised deferred tax assets

(in EUR million)	31/12/2015				
Nature	Less than 1 year	Between 1 to 5 years	Over 5 years	Unlimited maturity	Total
Temporary difference				(1,070)	(1,070)
Tax losses carried forward[1]		(354)	0	(1,226)	(1,581)
TOTAL	**0**	**(354)**	**0**	**(2,296)**	**(2,651)**

(1) Amounts have been reviewed.

(in EUR million)	31/12/2016				
Nature	Less than 1 year	Between 1 to 5 years	Over 5 years	Unlimited maturity	Total
Temporary difference				(306)	(306)
Tax losses carried forward		(416)	(129)	(1,197)	(1,742)
TOTAL	**0**	**(416)**	**(129)**	**(1,503)**	**(2,048)**

4.3. Offsetting financial assets and financial liabilities

The following table presents the amounts of financial assets and liabilities before and after offsetting.

The column "Gross amounts set off on the balance sheet" discloses the amounts offset in accordance with the IAS 32 criteria described in note "Accounting principles and rules governing the consolidated financial statements". Amounts set off are related to Dexia Crédit Local's derivative instruments and repurchase agreements traded with clearing houses and the amounts are non-significant.

The column "Impact of Master Netting agreements and similar agreements" includes the amounts of financial instruments that are subject to an enforceable master netting arrangement or similar agreement but which do not meet the offsetting criteria defined by IAS 32. This is the case of Dexia Crédit Local's transactions that are subject to ISDA Master Netting Agreements and Global Master Repurchase Agreements for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the counterparties.

The Dexia Group Master Netting Agreement ("DGMNA") dated as of 2 November 2009 had been concluded between Dexia SA/NV, Banque Internationale à Luxembourg S.A. (formerly known as Dexia Banque Internationale à Luxembourg S.A.), Belfius Bank SA/NV (formerly known as Dexia Bank Belgium SA/NV), Dexia Crédit Local S.A. and Dexia Crediop SpA.

The DGMNA permits netting or "Set-Off" amounts owed under transactions governed by different agreements, including one or more ISDA Master agreements or other trading agreements ("Principal Agreements") between the parties to the DGMNA. The DGMNA essentially aims at allowing netting in the event of a default on behalf of one of the parties, and therefore permits netting only when the transactions under the Principal Agreements are accelerated, terminated, liquidated or canceled (a so-called "Close Out" situation).

When a party is in default under the DGMNA, each other non defaulting Party may elect to Close Out all of the transactions under each Principal Agreement to which such non defaulting Party is a party.

Banque Internationale à Luxembourg and Belfius Banque SA/NV have no longer been part of the DGMNA respectively since 29 January 2014 and 16 November 2015.

The columns "Cash collateral" and "Financial instruments received or given as collateral" disclose the amounts related to financial collateral. They mainly include Dexia Crédit Local's guarantee deposits and securities received or given as collateral and disclosed at their fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the counterparties.

Dexia Crédit Local includes instruments at their recognized amounts. However, the amount of collateral is limited to the amount of the guaranteed asset or liability.

a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2015 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	23,997	(12)	23,985	(14,510)	(2,850)	0	6,626
Reverse repurchase and similar agreements	2,337	0	2,337	0	(22)	(2,315)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**26,334**	**(12)**	**26,322**	**(14,510)**	**(2,872)**	**(2,315)**	**6,626**

b. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2015 Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	50,619	(12)	50,607	(14,510)	(33,095)	(609)	2,394
Repurchase and similar agreements	34,024	0	34,024	0	(1,041)	(32,579)	404
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**84,643**	**(12)**	**84,631**	**(14,510)**	**(34,136)**	**(33,188)**	**2,798**

c. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2016 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts of financial assets presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral received	Financial instruments received as collateral	Net amounts
Derivatives	22,416	(324)	22,092	(13,069)	(2,555)	(62)	6,406
Reverse repurchase and similar agreements	2,389	0	2,389	0	(9)	(2,380)	0
TOTAL FINANCIAL ASSETS IN SCOPE OF OFFSETTING DISCLOSURES	**24,805**	**(324)**	**24,481**	**(13,069)**	**(2,564)**	**(2,442)**	**6,406**

d. Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(in EUR million)	31/12/2016 Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts of financial liabilities presented on the balance sheet	Related amounts not set off on the balance sheet: Impact of Master Netting Agreements and similar agreements	Cash collateral given	Financial instruments given as collateral	Net amounts
Derivatives	50,872	(324)	50,548	(13,069)	(34,706)	0	2,774
Repurchase and similar agreements	32,283	0	32,283	0	(326)	(30,372)	1,585
TOTAL FINANCIAL LIABILITIES IN SCOPE OF OFFSETTING DISCLOSURES	**83,155**	**(324)**	**82,831**	**(13,069)**	**(35,032)**	**(30,372)**	**4,359**

4.4. Related-party transactions

a. Related-party transactions

	Parent company (Dexia)	
(in EUR million)	2015	2016
Borrowings	790	612
Interest expense on borrowings	(2)	0

Since 31 December 2012, as a result of the capital increase subscribed by the Belgian and French States to the capital increase initiated by Dexia, Dexia Credit Local's parent company, these shareholders have become the only two shareholders having a significant influence on Dexia Crédit Local.

Group transactions with these shareholders are described in 4.4 C. below. Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the States Shareholders are not subject to a separate disclosure.
Loans to the key management have been granted at market conditions and their amounts is not significant.

b. Compensation of key management personnel (*)

(in EUR million)	2015	2016
Short-term benefits (1)	3.0	2.6
Termination contract benefits	0.3	0.9

(*) Key management personnel are members of the Board of Directors, of the Group Commitee and of the Management Board

(1) Includes salary, bonus and other benefits

c. Transactions with the Belgian, French and Luxembourg States

Guarantee mechanism in favour of Dexia's financing

2011 Temporary Guarantee Agreement
On 16 December 2011, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a First Demand Guarantee Agreement .

Pursuant to IT, the three States guaranteed severally, but not jointly, the performance by Dexia and DCL of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings contracted or issued (with a maturity of up to three years) between 21 December 2011 and 31 May 2012. This initial deadline has been extended (i) until 30 September 2012 with the consent of the Parties and of the European Commission pursuant to an Amendment n°1 of 30 May 2012; and (ii) until 31 January 2013 pursuant to an Amendment n°3 of 28 September 2012.

The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum limit of EUR 45 billion in principal (increased up to EUR 55 billion pursuant to Amendment n°2 of 5 June 2012), it being understood that the amounts which are so capped include outstanding guaranteed obligations at any moment during the term of this Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

On 21 December 2011, the European Commission authorised this guarantee mechanism on a temporary basis for a period until 31 May 2012, until the Commission has adopted a final decision within the frame of a new State aid investigation procedure. This decision was adopted on 28 December 2012. The temporary guarantee mechanism was authorised until the entry into force of the 2013 Guarantee Agreement described below.

As at 28 August 2015, guaranteed obligations pursuant to the 2011 Guarantee Agreement were entirely repaid, such that there is no outstanding guaranteed obligation pursuant to this guarantee as at 31 December 2015.

2013 guarantee agreement
On 24 January 2013, the French, Belgian and Luxembourg States and Dexia and Dexia Crédit Local ("DCL") entered into a Guarantees Issuance Agreement, and granted an Independent Guarantee pursuant to such Guarantees Issuance Agreement in favour of Dexia Crédit Local (main issuer and main operating entity of the Group) pursuant to the Belgian royal decree of 19 December 2012 amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia and Dexia Crédit Local SA" (as ratified by the law of 17 June 2013 *"portant des dispositions fiscales et financières et des dispositions relatives au développement durable"*), the French Enabling Law, as amended by the amending finance law n°2012-1510 of 29 December 2012 and the Luxembourg Enabling Law.

Pursuant to this 2013 Guarantee, the three States guarantee severally, but not jointly, the performance by DCL of their repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), provided that these obligations arise from certain financings contracted or issued in the form of securities and financial instruments, deposits and borrowings (with a maximum maturity of ten years) between 24 January 2013 and 31 December 2021.
This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee which is terminated without retroactive

effect and without prejudice to any rights arising pursuant to guaranteed obligations entered into or issued prior to the effectiveness of the Guarantee.
The States' several but not joint guarantee pursuant to this Agreement may not exceed a maximum aggregate limit of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, or any other guarantee granted pursuant to the Guarantees Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

The States guarantee the repayment obligations in the following proportion:
(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion);
(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion); and
(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).

Pursuant to the Guarantee Issuance Agreement, the following guarantee fee is due to the States:
(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Temporary Guarantee i.e. a balance of EUR 150 million.
(ii) a monthly fee, calculated at a rate per annum of 0.05% on the amount outstanding under the guaranteed obligations, both on the pre-existing guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantees Issuance Agreement (it being understood that such monthly fee shall, with respect to the portion of the outstanding amount of the guaranteed obligations that would be held by BDF Gestion SA or by the Banque de France, the National Bank of Belgium, be calculated in accordance with the 2011 Temporary Guarantee Agreement (as long as the ECB accepts the all-in fee principle).

The outstanding amount of the guaranteed debt pursuant to the 2013 guarantee agreement is disclosed on a daily basis on the website of the National Bank of Belgium (http://www.nbb.be/DOC/DQ/warandia/index.htm).

As at 31 December 2016, the total outstanding amount of obligations guaranteed by the States pursuant to the 2013 Guarantee Agreement was EUR 71 billion. In 2016, Dexia Crédit Local paid a total monthly remuneration of EUR 32 million to the States for these guarantees.

2008 Guarantee Agreement
As at 28 May 2014, guaranteed obligations pursuant to the 2008 Guarantee Agreement, as amended by the three States (as described in previous annual reports of Dexia Crédit Local), were entirely repaid, such that there is no outstanding guarantee obligation pursuant to this guarantee.

Guarantee for the financial products portfolio

Dexia entered into an agreement for the sale of the insurance activities of Financial Security Assurance (FSA) to Assured Guaranty Ltd (Assured) on 14 November 2008. The sale was completed on 1 July 2009. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.
In that context, the Belgian and French States agreed to provide a guarantee on the Financial Products assets portfolio. This guarantee was approved by the European Commission on 13 March 2009. The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to the "financial products" portfolio of FSA Asset Management LLC and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main relevant terms of these agreements have been described in the 2011 Annual Report page 146.

Pursuant to these agreements, the Belgian and French States each agreed to guarantee, severally and not jointly, the obligations of Dexia SA pursuant to a put agreement which gave FSAM the right to "put" to Dexia and/or DCL certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount equal to USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

With the consent of the Belgian and French States, FSAM sold to DCL during 2011 all the remaining Put Portfolio Assets. DCL subsequently sold substantially all of the Put Portfolio Assets to third parties. As at 31 December 2011, there were no longer any Put Portfolio Assets held by FSAM that can be put to Dexia SA and DCL and (if those Dexia entities did not pay the required amount to FSAM) require the States to make a payment to FSAM. Dexia also no longer owes the States any guarantee fee with respect thereto. The guarantee by the Belgian and French States on the Put Portfolio Assets, however, technically remains outstanding. The States are thus still entitled to recover from Dexia any amounts paid pursuant to their guarantee. This recourse of the States can be exercised either in cash or in the form of instruments representing Tier 1 capital of Dexia (ordinary shares or profit shares). The terms of the profit shares were approved by the Extraordinary Shareholders' Meeting of Dexia on 24 June 2009 and are set out in Article 4bis of the Articles of Association of Dexia.

Dexia issued subscription rights (warrants) to each of the States for a period of 5 years, to allow the States to be compensated, through the issuance of new shares, following the contribution in kind to Dexia of their right of reimbursement. The warrants issued to the Belgian and French States at the general meeting of shareholders of 11 May 2011, expired on 10 May 2016. The States and Dexia decided not to reissue the warrants because the right for the States and Dexia to seek repayment of their debt in share following a guarantee call cannot be excluded but became strictly theoretical as a result of the sale of the Put Portfolio Assets. The expiry of the warrants will not affect the right of the States to exercise as the case may be, their right to remedies against Dexia in the form of a "Capital Conversion" as defined and foreseen by the Guarantee Reimbursement Agreement.

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by the Special Board Report of 18 March 2011 relating to the reissue of the warrants, both available on the website of Dexia (www.dexia.com).

d. Transactions with the SFPI and Belfius bank

An agreement was concluded on 23 December 2016 between Dexia, Belfius Bank and the Société Fédérale de Participations et d'Investissement (SFPI). It deals in particular with arranging certain transactions relating to financial instruments (particularly derivatives) and puts an end to certain issues which existed between Belfius Bank and Dexia. All the transactions referred to in this agreement were concluded at market conditions, as they prevailed upon finalisation of that agreement, and in the ordinary course of the activities of Dexia and Belfius Bank. They fall within the framework of a general policy of simplification and the continued unwinding of relations between Dexia and its former subsidiary, and thus aim to rationalise those links, in the spirit of the orderly resolution guiding Dexia's strategy since 2012. The impact of the financial transactions covered by this agreement on the Dexia financial statements for 2016 is marginal.

4.5. Share-based payments

Dexia stock option plans (number of options)	**2015**	**2016**
Outstanding at the beginning of the period	8,101,621	6,445,628
Expired during the period	(1,655,993)	(1,756,602)
Outstanding at the end of the period	**6,445,628**	**4,689,026**
Exercisable at the end of the period	**6,445,628**	**4,689,026**

2015				**2016**			
Range of exercice prices (EUR)(1)	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**	**Range of exercice prices (EUR)**	**Number of outstanding options**	**Weighted-average exercise price (EUR)**	**Weighted-average remaining contractual life (years)**
10.74 - 12.35	2,323,202	11.78	2.49	10.74 - 12.35	2,323,202	12.16	1.49
16.47 - 19.21	1,756,602	16.83	0.49	16.47 - 19.21	0	16.83	0
19.21 - 21.02	2,365,824	21.02	1.49	19.21 - 21.02	2,365,824	21.02	0.5
TOTAL	**6,445,628**			**TOTAL**	**4,689,026**		

Since 2008 no option has been exerciced. In fact they are out of the money.

4.6. Capital stock

	2015	**2016**
Number of shares authorized	223,657,776	279,213,332
Number of shares issued and fully paid	223,657,776	279,213,332
Number of shares issued and not fully paid	0	0
Par value of the share (2)	**1**	**1**
Outstanding as at 1 Jan.	223,657,776	223,657,776
Number of shares issued	0	55,555,556
Outstanding as at 31 Dec.	223,657,776	279,213,332
Rights, preferences and restrictions, including restrictions on the distribution of dividends and the repayment of capital	0	0
Number of treasury shares	0	0
Number of shares reserved for issue under stock options and contracts for the sale of shares (1)	NA	NA

(1) Under the stock option plans of Dexia Credit Local, these are Dexia shares that are granted to the employees.
(2) On the 28 June 2016, the Extraordinary shareholder's meeting of Dexia Crédit Local decided to increase the share capital by an amount of EUR 250 million by issuing new shares with preferential subscription rights for the shareholders.
The share capital of Dexia Crédit Local has been increased from EUR 223,657,776 to EUR 279,213,332 through the issuance of 55,555,556 new shares with a nominal value of € 1 issued at the unit price of EUR 4.5 issue of € 3.5 per share.

See note 4.5 Share-based payments

4.7. Exchange rates

The primary exchange rates are presented in the following schedule.

		31/12/2015		31/12/2016	
		Closing rate (1)	Average rate (2)	Closing rate (1)	Average rate (2)
Australian dollar	AUD	1.4899	1.4819	1.4629	1.4854
Canadian dollar	CAD	1.5111	1.4263	1.4201	1.4584
Swiss Franc	CHF	1.0859	1.0643	1.0739	1.0901
Czech Koruna	CZK	27.0210	27.2674	27.0210	27.0388
Danish Krone	DKK	7.4629	7.4605	7.4348	7.4446
British Pound Sterling	GBP	0.7384	0.7246	0.8552	0.8231
Hong-Kong dollar	HKD	8.4479	8.5646	8.2011	8.5665
Hungarian forint	HUF	315.9700	309.4954	308.5850	311.5592
Shekel	ILS	4.2436	4.2949	4.0677	4.2261
Japenese Yen	JPY	130.8750	133.5942	123.4200	120.4517
Won	KRW	1281.6800	1254.2000	1272.9950	1280.1900
Mexican Peso	MXN	18.8198	17.6588	21.8382	20.6331
Norwegian Krone	NOK	9.5923	8.9808	9.0930	9.2558
New Zealand dollar	NZD	1.5891	1.5959	1.5179	1.5825
Swedish Krona	SEK	9.1675	9.3332	9.5573	9.4743
Singapore dollar	SGD	1.5422	1.5224	1.5270	1.5245
New Turkish Lira	TRY	3.1710	3.0373	3.7200	3.3406
US Dollar	USD	1.0901	1.1049	1.0576	1.1037

(1) Rate observed on Reuters at 4:45 pm on the last business day of the month of December.
(2) Average of the closing rates used by the Dexia group.

4.8. Management of capital

The information regarding management of capital is presented in the Management report pages 28 to 30.

5. Notes on the statement of income

(some amounts may not add up due to roundings off)

5.1. Interest income - Interest expense (Items I and II - Statement of income)

(in EUR million)	2015	2016
Interest income	**10,881**	**10,127**
a) Interest income on assets not measured at fair value	**4,572**	**4,043**
Cash and central banks	15	22
Interbank loans and advances	151	142
Customer loans and advances	3,539	3,180
Financial assets available for sale	823	611
Financial assets held to maturity	13	52
Impaired assets	4	7
Other	26	29
b) Interest income on assets measured at fair value	**6,225**	**5,754**
Loans and securities held for trading	69	24
Derivatives held for trading	4,137	3,613
Hedging derivatives	2,019	2,118
c) Positive interests on financial liabilities	**85**	**330**
Positive interests on financial liabilities(2)	85	330
Interest expense	**(10,494)**	**(9,818)**
a) Interest expense on liabilities not measured at fair value	**(2,090)**	**(2,054)**
Interbank borrowings and deposits	(471)	(422)
Customer borrowings and deposits	(71)	(73)
Debt securities	(1,500)	(1,519)
Subordinated debt	(4)	4
Amounts covered by sovereign guarantees(1)	(38)	(35)
Other	(6)	(9)
b) Interest expense on liabilities measured at fair value	**(8,345)**	**(7,465)**
Liabilities designated at fair value	(89)	(73)
Derivatives held for trading	(4,434)	(3,653)
Hedging derivatives	(3,822)	(3,739)
c) Negative interests on financial assets	**(59)**	**(299)**
Negative interests on financial assets(2)	(59)	(299)
Net interest income	**387**	**309**

(1) This item includes fees paid to the States for the guarantees they granted to Dexia Crédit Local's debt. See also note 4.4.c Related-party transactions - Transactions with the Belgian, French and Luxembourg States.

(2) In the current environment of very low or negative rates, Dexia Crédit Local decided to present separately positive interests on financial liabilities and negative interests on financial assets.

5.2. Fees and Commissions (Items III and IV - Income statement)

	2015			2016		
(in EUR million)	Income	Expense	Net	Income	Expense	Net
Lending activity	10	(4)	6	8	(3)	5
Purchase and sale of securities	0	(3)	(2)	0	(2)	(2)
Payment services	0	(3)	(3)	1	(2)	(1)
Commissions paid to business providers	0	(1)	(1)	0	0	0
Services on securities other than custodial services	0	(2)	(2)	0	(2)	(2)
Custodial services	3	(1)	2	5	(1)	4
Issuance and placement of securities	2	0	2	0	0	0
Intermediation on repo and reverse repo	0	(1)	(1)	0	(4)	(4)
Other	4	(3)	1	3	(2)	1
TOTAL	**20**	**(16)**	**3**	**17**	**(17)**	**(1)**

Fees and commissions related to financial assets and financial liabilities which are not at fair value through profit or loss are below materiality

5.3. Net gains (losses) on financial instruments at fair value through profit or loss (Item V - Income statement)

(in EUR million)	2015	2016
Net trading income	46	210
Net result of hedge accounting	489	209
Net result of financial instruments designated at fair value through profit or loss(1)	21	34
Change in own credit risk(2)	64	(36)
Funding costs associated with not collateralised derivatives (FVA)(3)(4)	(106)	(57)
Change in fair value of derivatives attributable to counterparty risk (credit value adjustment)(3)	77	11
Change in fair value of derivatives attributable to own credit risk (debit value adjustment)(3)	(30)	(52)
Net result of foreign exchange transactions	(38)	(44)
TOTAL	**523**	**275**
(1) among which trading derivatives included in a fair value option strategy	(32)	(50)

(2) see also note 7.2.h. Credit risk on financial liabilities designated at fair value through profit or loss
(3) FVA, CVA et DVA are booked in the result of trading activities
(4) In accordance with the provisions of the IFRS 13 accounting standard and in line with market practice, the Dexia Crédit Local Group developed a methodology for the calculation, from June 2015, of a Funding Valuation Adjustment (FVA) aimed measuring the funding costs associated with non-collateralised derivatives.

All interests received and paid on assets, liabilities and derivatives are recorded in the net interest income.
Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions only include the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

(in EUR million)	2015	2016
Fair value hedges	**495**	**206**
Fair value changes of the hedged item attributable to the hedged risk	(1,157)	1,660
Fair value changes of the hedging derivatives	1,653	(1,454)
Cash flow hedges	**(3)**	**2**
Fair value changes of the hedging derivatives – ineffective portion	(3)	2
Portfolio hedge	**(3)**	**1**
Fair value changes of the hedged item	(214)	175
Fair value changes of the hedging derivatives	211	(174)
TOTAL	**489**	**209**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) - amounts recorded in interest margin	0	2

The inefficiency is mainly due to the volatility of the variable component of hedging derivatives.

5.4. Net gains (losses) on financial assets available for sale (Item VI - Income statement)

(in EUR million)	2015	2016
Dividends on securities available for sale	2	13
Net gain (loss) on disposals of financial assets available for sale[1]	114	16
Impairment of variable-income securities available for sale	(6)	(2)
Net gain (loss) on disposals of loans and advances	18	52
Net gain (loss) on disposal of debt securities[2]	(61)	36
TOTAL	**67**	**116**

(1) except for gains and losses on impaired fixed-income securities, which are included in cost of risk
(2) 2015: EUR -52 million for the recognition of the exercise price of the put option to purchase Banco de Sabadell's stake in Dexia Sabadell, following the decision of the Court of Arbitration in Madrid
2016: of which EUR +38 million due to redemption of Euro Medium term notes

5.5. Other income (Item VII - Income statement)

(in EUR million)	2015	2016
Rental income	3	3
Other banking income	0	1
Litigations[1]	40	34
Other income	2	13
TOTAL	**45**	**52**

(1) Structured loans are regularly analyzed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds,...). This generates charges and reversals, which are disclosed in Note 5.5 Other income and respectively 5.6 Other expense.

5.6. Other expenses (Item VIII - Income statement)

(in EUR million)	2015	2016
Provisions for litigations[1]	(40)	(24)
Operating taxes	(1)	0
Other expenses	(4)	(15)
TOTAL	**(44)**	**(40)**

(1) Structured loans are regularly analyzed based on the progress of cases and on their environment (court decisions, parameters for establishment of support funds,...). This generates charges and reversals, which are disclosed in Note 5.5 Other income and respectively 5.6 Other expense.

5.7. Operating expenses (Item X - Income statement)

(in EUR million)	2015	2016
Payroll costs	(164)	(156)
General and administrative expenses	(265)	(239)
TOTAL	**(429)**	**(395)**

a. Payroll costs

(in EUR million)	2015	2016
Compensation and salary expense	(107)	(104)
Social security and insurance expense	(36)	(37)
Employee benefits	(11)	(10)
Restructuring costs	0	(1)
Other	(10)	(4)
TOTAL	**(164)**	**(156)**

b. Employee information

	2015	2016
(Average full time equivalent)	Fully consolidated	Fully consolidated
Executive staff	20	22
Administrative staff	1,089	1,041
Non-administrative and other personnel	10	14
TOTAL	**1,119**	**1,077**

	2015						
(Average full time equivalent)	France	Italy	Spain[1]	Other Europe[1]	USA	Other non Europe	Total
Executive staff	6	2	1	4	3	4	20
Administrative staff	668	119	33	110	116	43	1,089
Non-administrative and other personnel	0	0	1	0	9	0	10
TOTAL	**674**	**121**	**35**	**114**	**128**	**47**	**1,119**

The figures 2015 have been restated in order to include Portugal in the column Other Europe, while the relative figures were previously aggregated with Spain.

	2016						
(Average full time equivalent)	France	Italy	Spain	Other Europe	USA	Other non Europe	Total
Executive staff	3	2	1	4	8	4	22
Administrative staff	649	110	31	110	98	43	1,041
Non-administrative and other personnel	0	1	0	0	13	0	14
TOTAL	**652**	**113**	**32**	**114**	**119**	**47**	**1,077**

General and administrative expenses

(in EUR million)	2015	2016
Cost of premises	(4)	(4)
Rent expense[1]	(7)	(12)
Fees	(47)	(52)
Marketing, advertising and public relations	(1)	(1)
IT expense	(34)	(28)
Software, research and development	(5)	(5)
Maintenance and repair	(4)	(2)
Restructuring costs	3	1
Insurance (except related to pensions)	(7)	(5)
Stamp duty		
Other taxes[2]	(132)	(116)
Other general and administrative expenses	(25)	(13)
TOTAL	**(265)**	**(239)**

(1) this amount does not include IT equipment rental expenses, which are included in the "IT expense" line
(2) 2015: This item includes a charge of EUR -50 million representing the first contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -31 million representing an exceptional contribution for Italian Banks rescue, an amount of EUR -14 million representing the annual levy for systemic risk and an amount of EUR -28 million representing the full amount of Dexia voluntary multi-year contribution to the local authority and hospital sector support funds introduced in France.
2016: This item includes a charge of EUR -63 million representing the annual contribution to the Single Resolution Fund (SRF) introduced by the European authorities within the framework of the Single Supervisory Mechanism, an amount of EUR -25 million representing an exceptional contribution for Italian Banks rescue, an amount of EUR -11,2 million representing the annual levy for systemic risk and an amount of EUR -2,6 million representing the Dexia contribution to the local authority and hospital sector support funds introduced in France.

5.8. Depreciation, amortisation and impairment of tangible fixed assets and intangible assets (Item XI - Income Statement)

Depreciation and amortisation (in EUR million)	2015	2016
Depreciation of land and buildings, office furniture and other equipment	(7)	0
Depreciation of other tangible fixed assets	(3)	(3)
Amortization of intangible assets	(12)	(12)
TOTAL	**(22)**	**(15)**

Impairment (in EUR million)	2015	2016
Impairment on assets held for sale	1	0
TOTAL	**1**	**0**

Losses or gains (in EUR million)	2015	2016
TOTAL	**(1)**	**0**
TOTAL	**(22)**	**(15)**

5.9. Cost of risk (Item XIII - Income Statement)

(in EUR million)	2015			2016		
	Collective impairment	Specific impairment and losses	TOTAL	Collective impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	90	(153)	(63)	8	59	67
Fixed-income securities available for sale		(113)	(113)		71	71
TOTAL	**90**	**(266)**	**(175)**	**8**	**130**	**138**

Detail of collective and specific impairments

Collective impairement	2015			2016		
(in EUR million)	Additions	Recoveries	Total	Additions	Recoveries	Total
Loans and securities held to maturity	(82)	172	90	(96)	104	8
TOTAL	**(82)**	**172**	**90**	**(96)**	**104**	**8**

Specific impairment	2015				
(in EUR million)	Additions	Recoveries	Losses	Collections	Total
Customer loans and advances	(182)	44	(11)	0	(149)
Accruals and other assets	0	0	(5)	0	(5)
Off-balance sheet commitments	0	1	0	0	1
TOTAL CREDIT	**(182)**	**45**	**(16)**	**0**	**(153)**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**(107)**	**54**	**(60)**	**0**	**(113)**
TOTAL	**(289)**	**99**	**(76)**	**0**	**(266)**

Specific impairment	2016				
(in EUR million)	Additions	Recoveries	Losses	Collections	Total
Customer loans and advances	(136)	275	(77)	0	62
Accruals and other assets	0	0	0	0	0
Off-balance sheet commitments	(6)	3	0	0	(3)
TOTAL CREDIT	**(142)**	**278**	**(77)**	**0**	**59**
FIXED-INCOME SECURITIES AVAILABLE FOR SALE	**0**	**98**	**(26)**	**0**	**71**
TOTAL	**(142)**	**376**	**(104)**	**0**	**130**

5.10. Net gains (losses) on other assets (Item XVI - Income statement)

(in EUR million)	2015	2016
Net gains (losses) on disposals of buildings[1]	15	1
Gains/losses on the disposal of assets held for sale[2]	0	55
TOTAL	**14**	**56**

(1) 2015: Capital gain on the sale of Crediop's operating property.
(2) 2016: Capital gain of EUR + 50 million on the sale of CBX Tower in La Défense.

5.11. Income tax (Item XIX - Income statement)

Detail of tax expense (in EUR million)	2015	2016
Income tax on current year	(2)	(21)
Deferred taxes on current year	(41)	9
TAX ON CURRENT YEAR RESULT (A)	**(43)**	**(12)**
Income tax on previous year	0	1
Deferred taxes on previous year	0	0
Provision for tax litigations	6	(43)
OTHER TAX EXPENSE (B)	**6**	**(42)**
TOTAL (A) + (B)	**(37)**	**(54)**

Effective corporate income tax charge

The overall rate of the French corporate income tax (CIT) amounts to 34.43 % (including 33 1/3 % of CIT plus 3.3 % of additional contribution based on the CIT amount).

The French budget law for 2017 provides for a gradual reduction of the corporate tax rate. However, for large companies, the new 28% rate will not be fully applied until 2020.

To the extent that the reduced rate will only fully apply from 2020 onwards, the deferred tax rate for French companies within the group remains at 34.43%, keeping in mind that in any case no deferred tax assets are recognized.

The rate applied to foreign subsidiaries results is the one applicable locally according to the national legislation.

The average tax rate recorded in 2016 is 2,51%. The difference with the French rate can be explained as follows:

(in EUR million)	2015	2016
Net income before tax	370	495
Tax base	**370**	**495**
Statutory tax rate	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**(127)**	**(170)**
Impact of differences between foreign tax rates and the standars French tax rate	84	(236)
Tax effect of non-deductible expenses	(164)	(307)
Tax effect of non-taxable income	162	173
Impact of items taxed at a reduced rate	(35)	26
Tax effect of change in tax rates	(11)	0
Other additional taxes or tax savings(1)	48	(274)
Tax effect from reassessment of unrecognised deferred tax assets	0	776
Tax on current year	**(43)**	**(12)**
Effective tax rate	**11.73%**	**2.51%**

(1) In 2016, the amount includes EUR - 198 million related to the deferral of tax deduction of capital losses on intra-group transfers of securities.

Tax consolidation

Dexia SA établissement stable in France is the head of the tax group, bringing together the following companies:

Dexia Crédit Local
GENEBUS Lease
Dexia Flobail
CBX. IA 2
DEXIARAIL
Dexia CLF Banque
DCL Evolution
Dexia CLF Régions Bail

Tax savings made by the tax group, as a result of losses, are recorded by Dexia Etablissement Stable (outside the scope of Dexia Crédit Local). However an addendum to the tax consolidation's agreement between DSA ES and DCL allows the latter under certain conditions to benefit from tax savings as a result of its own losses and up to the level of tax transfers performed by its subsidiaries to DSA ES.

5.12. Earnings per share

a. Basic earnings per share

Basic earnings per share are obtained by dividing "Net income, Group share" by the weighted average number of ordinary shares in issue during the year, less the average number of ordinary shares purchased by the company and held as treasury stock.

	2015	2016
Net income, Group share (in EUR million)	327	442
Weighted average number of ordinary shares (million)(1)	224	252
Basic earnings per share (in EUR)	1.46	1.75

(1) The Extraordinary shareholder's meeting of Dexia Crédit Local, as of 28 Juin 2016 acted a capital increase in cash by the issuance of 55.555.555 new shares maintaining the preferential susbscription rights of the shareholders.

b. Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to reflect the conversion of all shares options granted to employees. For stock options, the calculation of the number of shares that could have been acquired at fair value (calculated as the average annual share price) is based on the monetary value of the subscription rights attached to the outstanding options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the shares options.

The potential ordinary shares calculated as above are treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share.

They are antidilutive and not taken into account when their conversion to ordinary shares would decrease loss per share.

No adjustment is made to net income attributable to equity holders of the parent.

	2015	2016
Net income, Group share (in EUR million)	327	442
Weighted-average number of ordinary shares (million)(1)	224	252
Adjustment for stock-options (million)	0	0
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (million)	224	252
Diluted earnings per share (in EUR)	1.46	1.75

(1) The Extraordinary shareholder's meeting of Dexia Crédit Local, as of 28 Juin 2016 acted a capital increase in cash by the issuance of 55.555.555 new shares maintaining the preferential susbscription rights of the shareholders.

6. Note on off-balance sheet items

6.1. Regular way trade

(in EUR million)	31/12/2015	31/12/2016
Assets to be delivered	68	13
Liabilities to be received	3,405	106

6.2. Guarantees

(in EUR million)	31/12/2015	31/12/2016
Guarantees given to credit institutions	455	462
Guarantees given to customers	1,746	1,638
Guarantees received from credit institutions	132	752
Guarantees received from customers	6,899	6,076
Guarantees received from the States	61,669	71,780

6.3. Loan commitments

(in EUR million)	31/12/2015	31/12/2016
Unused lines granted to credit institutions	11	10
Unused lines granted to customers	2,575	1,777
Unused lines granted from credit institutions(1)	660	5,718
Unused lines granted from customers	834	817

(1) Increase in 2016 mainly due to the lower utilization of financing commitments received from Banque de France

6.4. Other commitments

(in EUR million)	31/12/2015	31/12/2016
Financial instruments given as collateral and other commitments given	78,085	79,054
Financial instruments received as collateral and other commitments received	14,002	13,197

7. Notes on risk exposure

(some amounts may not add up due to roundings off)

7.0. Risk exposure and hedging strategy

We refer to chapter "risk management" of Management Report

7.1. Fair value

a. Fair value measurement and fair value hierarchy of financial instruments

We refer to note 1.1 Accounting policies and valuation methods, paragraph 1.1.7. Fair value of financial instruments

b. Fair value

The following tables compare the fair value with the carrying amount of financial instruments not measured at fair value.

	31/12/2015		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,835	4,835	0
Interbank loans and advances	7,433	7,588	156
Customer loans and advances	127,483	118,917	(8,566)
Financial assets held to maturity	199	191	(8)
Central banks	15,932	15,932	0
Interbank borrowings and deposits	49,569	49,591	22
Customer borrowings and deposits	9,399	9,458	59
Debt securities	91,532	92,001	469
Subordinated debt	492	484	(8)

	31/12/2016		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,222	4,222	0
Interbank loans and advances	7,109	7,113	4
Customer loans and advances	118,882	111,737	(7,145)
Financial assets held to maturity	1,918	1,885	(33)
Central banks	690	690	0
Interbank borrowings and deposits	40,850	40,849	(1)
Customer borrowings and deposits	10,778	10,816	38
Debt securities	98,524	98,907	383
Subordinated debt	482	479	(3)

c. Methods used to determine the fair value of financial instruments

The following tables provide an analysis of the fair value of financial assets and financial liabilities, based on the degree to which the fair value is observable (Level 1 to 3). The fair value measurement is recurring for financial instruments at fair value. The non-recurring fair value measurement is not significant for Dexia Crédit Local. Following the adoption of IFRS 13 Fair value measurement as from 1 January 2013, the method used to measure the fair value applies to all financial instruments.

Fair value of financial assets

(in EUR million)	31/12/2015 Level 1	Level 2	Level 3	Total	31/12/2016 Level 1	Level 2	Level 3	Total
Cash and central banks	0	4,835	0	4,835	0	4,222	0	4,222
Financial assets at fair value through profit and loss	0	15,102	5,073	20,175	0	12,253	5,527	17,780
** Loans and securities held for trading*	*0*	*0*	*1,375*	*1,375*	*0*	*0*	*1,365*	*1,365*
** Derivatives held for trading*	*0*	*15,102*	*3,698*	*18,800*	*0*	*12,253*	*4,162*	*16,415*
Hedging derivatives	0	5,472	1,200	6,672	0	5,477	1,354	6,830
Financial assets available for sale	19,004	621	2,512	22,137	13,215	741	2,593	16,548
** Financial assets available for sale - bonds*	*18,899*	*614*	*2,375*	*21,887*	*13,133*	*727*	*2,479*	*16,338*
** Financial assets available for sale - equities*	*105*	*7*	*138*	*249*	*82*	*14*	*114*	*210*
Interbank loans and advances	5	3,146	4,437	7,588	0	2,227	4,886	7,113
Customer borrowings and deposits	626	0	118,291	118,917	50	620	111,067	111,737
Financial assets held to maturity	21	0	171	191	1,657	99	129	1,885
TOTAL	**19,655**	**29,176**	**131,684**	**180,516**	**14,921**	**25,638**	**125,556**	**166,116**

Fair value of financial liabilities

(in EUR million)	31/12/2015 Level 1	Level 2	Level 3	Total	31/12/2016 Level 1	Level 2	Level 3	Total
Central banks	0	15,932		15,932	0	690	0	690
Financial liabilities at fair value through profit and loss	0	17,814	4,964	22,778	0	13,827	4,848	18,675
** Financial liabilities designated at fair value*	*0*	*1,491*	*495*	*1,986*	*0*	*1,278*	*520*	*1,797*
** Derivatives held for trading*	*0*	*16,323*	*4,470*	*20,792*	*0*	*12,549*	*4,329*	*16,878*
Hedging derivatives	0	15,602	14,376	29,978	0	18,479	15,318	33,796
Interbank borrowings and deposits	0	22,783	26,808	49,591	0	22,224	18,626	40,849
Customer borrowings and deposits	0	3,324	6,134	9,458	0	8,074	2,742	10,816
Debt securities	0	55,281	36,720	92,001	0	69,453	29,454	98,907
Subordinated debt	0	23	461	484	0	0	479	479
TOTAL	**0**	**130,758**	**89,463**	**220,222**	**0**	**132,747**	**71,466**	**204,213**

d. Transfer between level 1 and level 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2.

(in EUR million)	31/12/2015 From 1 to 2	From 2 to 1	31/12/2016 From 1 to 2	From 2 to 1
Financial assets available for sale - bonds	0	5,733	550	62
TOTAL FINANCIAL ASSETS	**0**	**5,733**	**550**	**62**

In 2015, the transfers from level 2 to level 1 are mainly explained by the increasing liquidity in the market for Spanish covered bonds.
The amounts of transfers between levels are the amounts of fair value of financial instruments at the closing date.

e. Level 3 reconciliation

(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3[(1)]	Transfer out of level 3	Other movements[(2)]	Closing
	2015									
Loans and securities held for trading	1,787	(151)			(220)	(148)			107	1,375
Financial assets designated at fair value - bonds and other fixed-income instruments	27	(0)				(26)				0
Derivatives held for trading	2,442	(75)					1,348	(93)	75	3,698
Hedging derivatives	1,236	(162)	28				192	(100)	5	1,200
Financial assets available for sale - bonds	2,604	(168)	3	38	(175)	(325)	245	(22)	175	2,375
Financial assets available for sale - equities	143	(5)		4	(14)	(1)			12	138
TOTAL FINANCIAL ASSETS	**8,239**	**(562)**	**31**	**42**	**(409)**	**(500)**	**1,786**	**(216)**	**374**	**8,786**
Financial liabilities designated at fair value	805	(63)				(330)			83	495
Derivatives held for trading	1,857	(75)					2,756	(122)	53	4,469
Hedging derivatives	9,666	(708)	(196)				5,447	(206)	374	14,376
TOTAL FINANCIAL LIABILITIES	**12,328**	**(845)**	**(196)**	**0**	**0**	**(330)**	**8,203**	**(329)**	**510**	**19,341**

(1) Long-term interest rate derivatives, denominated in foreign currencies and collateralised in euro, were valued using market data considered in 2015 as unobservable because implicit from observable or extrapolated parameters.

(2) Other movements include notably exchange difference for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR 186 million recognised in result and to EUR 188 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR 427 million recognised in result and to EUR 83 million recognised in Unrealised or deferred gains or losses through equity.

(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/ losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements[(1)]	Closing
	2016									
Loans and securities held for trading	1,375	144				(56)			(98)	1,365
Derivatives held for trading	3,698	590		64			2	(22)	(170)	4,162
Hedging derivatives	1,200	86	40	0		(4)	42	(7)	(3)	1,354
Financial assets available for sale - bonds	2,375	65	(16)	29	(1)	(424)	560	(155)	47	2,479
Financial assets available for sale - equities	138	(2)	1		(22)	(0)			(0)	115
TOTAL FINANCIAL ASSETS	**8,786**	**884**	**26**	**93**	**(24)**	**(484)**	**604**	**(184)**	**(225)**	**9,475**
Financial liabilities designated at fair value	495	24				(15)			16	520
Derivatives held for trading	4,469	57		100		(2)	14	(14)	(297)	4,329
Hedging derivatives	14,376	1,128	79	935			6	(398)	(809)	15,318
TOTAL FINANCIAL LIABILITIES	**19,341**	**1,210**	**79**	**1,035**	**0**	**(17)**	**21**	**(412)**	**(1,090)**	**20,166**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR - 265 million in result and to EUR 40 million recognised in Unrealised or deferred gains and losses through equity. On the liabilities side, they amount to EUR - 1,106 million recognised in result and to EUR 16 million recognised in Unrealised or deferred gains or losses through equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value of financial instruments at the closing date.

f. Sensitivity of level 3 valuations to alternative assumptions

Dexia Crédit Local fair value applied to bonds and CDS classified in level 3 is partly based on unobservable parameters. The sensitivity analysis described below measures the impact on fair value of alternative assumptions used for unobservable parameters at closing date.
Dexia Crédit Local decided to elaborate alternative assumptions on the following unobservable parameters:
- credit spreads, depending on availability of credit spreads for the same counterparty, or credit spreads based on similar counterparties, similar sectors or by using credit risk indexed on liquid CDS indexes;
- the basis Cash – CDS that allows to deduct bonds spreads from CDS spreads.

Tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:
- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR 21.5 million and a negative impact of EUR -21.5 million for 2016, while in 2015, it was estimated between a positive impact of EUR 18 million and a negative impact of EUR -18 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions in 2016, the positive impact (unwinds cost of 2014) is EUR 5.2 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -19.8 million. For 2015, the positive impact (unwinds cost of 2009) was EUR +5.5 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -21.8 million.

The impact of the credit spreads alternative assumptions on Dexia Crédit Local's credit derivatives is estimated at EUR 14.1 million (positive scenario) versus EUR -14.7 million (negative scenario) before tax, while in 2015, it was estimated at EUR 15.7 million (positive scenario) versus EUR -16.4 million (negative scenario).

g. Difference between transaction prices and modelled values (deferred day one profit)

No DOP amounts were taken upfront.

7.2. Credit risk exposure

Exposure at Default (EAD) is one of the parameters used to calculate capital requirements under the Regulation (EU) No 575/2013.
It corresponds to the best estimate of credit risk exposure at default and the definition varies depending on the approach adopted in calculating capital requirements. The Dexia Crédit Local Group uses both the standard and the advanced approach to calculating its risk-weighted assets.
- For financial assets measured at amortised cost, the EAD of a credit exposure on the balance sheet corresponds to the book value, gross of impairments, taking into account of accrued interest and the impact of hedge accounting;
- For financial assets measured at fair value, the EAD of a credit exposure on the balance sheet corresponds to the carrying amount before impairments;
- For derivatives, the EAD is calculated using the mark-to-market valuation method under Article 274 of the Regulation (EU) No 575/2013 and includes the replacement cost as well as the amount representing future potential exposure, obtained by the product of the notional amount and a coefficient depending on the type of derivative and its residual term;
- For off-balance-sheet commitments, the EAD represents the product of the (nominal) amounts of commitments and a Credit Conversion Factor (CCF). The Dexia Crédit Local Group applies the standard method (Article 111 of the Regulation (EU) No 575/2013) to determine credit conversion factors, except for project finance transactions (advanced approach).

In addition, as information relating to credit risk only concerns financial instruments generating credit risk exposure, the Dexia Crédit Local Group has decided to exclude from the scope of this report the other assets, mainly accruals and other assets.

Credit risk exposure amounted to EUR 164 billion as at 31 December 2016.

a. Exposure by geographical region and by category of counterpart

Exposure by geographic region

(in EUR million)	31/12/2015	31/12/2016
France	26,544	25,413
Belgium	2,143	2,009
Germany	22,308	20,689
Greece	149	128
Ireland	160	103
Italy	27,242	25,512
Luxembourg	58	61
Spain	16,833	14,073
Portugal	4,149	3,868
Hungary	946	275
Austria	1,575	1,118
Central and Eastern Europe	2,895	1,843
Netherlands	342	155
Scandinavian countries	1,471	1,229
Great Britain	25,804	25,447
Switzerland	520	399
Turkey	496	367
United States and Canada	31,351	26,479
South and Central America	552	490
Southeast Asia	828	607
Japan	7,551	7,470
Other (1)	6,994	6,187
TOTAL	**180,912**	**163,923**

(1) Includes supranational entities.

Exposure by category of counterpart

(in EUR million)	31/12/2015	31/12/2016
Central governments	29,513	25,461
Local public sector(1)(2)	94,506	89,275
Financial institutions(2)	24,289	19,798
Corporates	8,406	7,590
Monoline	1,837	2,040
ABS/MBS	7,799	6,403
Project finance	14,562	13,355
TOTAL	**180,912**	**163,923**

(1) as at 31 December 2016, this category includes: EUR 50 million on Greece, EUR 2 million on Hungary, EUR 10,750 million on Italy, EUR 1,794 million on Portugal and EUR 6,785 million on Spain, and as at 31/12/2015, this category includes: EUR 63 million on Greece, EUR 26 million on Hungary, EUR 11,206 million on Italy, EUR 1,825 million on Portugal and EUR 7,796 million on Spain

(2) In order to achieve a consistency of internal reporting, changes have been made in the classification of exposures: two Italian funds previoulsy classified as "Financial Institutions" have been reclassified in "Local Public sector" in view of their specific activity, for an amount of EUR 94 million. Figures as at 31/12/2015 were reviewed.

b. Maximum credit risk exposure (EAD) by class of financial instruments

	31/12/2015			31/12/2016		
(in EUR million)	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure	Credit risk exposure before financial effect of the collateral	Financial effect of the collateral	Credit risk exposure
Financial assets available for sale (excluding variable income securities)	21,985	0	21,985	16,342	0	16,342
Financial assets held for trading (excluding variable income securities)	1,375	0	1,375	1,365	0	1,365
Derivatives held for trading	8,815	2,901	5,913	7,856	1,939	5,917
Hedging derivatives	2,250	1,405	845	2,072	1,382	690
Financial assets held to maturity	199	0	199	1,917	0	1,917
Loans and advances (at amortised cost)	143,255	2,264	140,990	132,973	2,920	130,053
Loans commitments granted	1,715	0	1,715	1,249	0	1,249
Guarantee commitments granted	44,040	36,152	7,888	40,648	34,258	6,390
TOTAL	**223,634**	**42,722**	**180,912**	**204,422**	**40,499**	**163,923**

Dexia Crédit Local holds financial collaterals composed of cash collaterals and term deposits, and to a lesser extend, of investment grade bonds (mainly AAA- AA sovereign or banking issuers).
Only financial collaterals eligible under Basel's regulation and directly held by Dexia Crédit Local are considered.
Credit risk exposure is presented gross of impairment. The amount of specific impairment by class of financial instruments is presented in the note 2.11 Quality of financial assets

c. Credit quality of performing financial assets

The credit quality of financial assets is measured by reference to internal (Basel standard) or external ratings. Indeed, Dexia Crédit Local applies the AIRBA (Advanced Internal Ratings Based Approach) for the calculation of capital requirements for credit risk within the context of Pillar I of Basel, except for ABS positions for which credit risk is calculated within the Ratings based Approach, based on external ratings (Fitch, Standard & Poors or Moody's) and part of its portfolio for which credit risk exposure is calculated conforming the Basel Standard Method.

	31/12/2015				
(in EUR millions)	AAA to AA-(1)	A+ to BBB-(1)	Non investment grade(1)	Unrated	Total
Financial assets available for sale (excluding variable income securities)	3,780	15,028	2,965	0	21,773
Financial assets held for trading (excluding variable income securities)	46	1,292	38	0	1,375
Derivatives held for trading(1)	953	3,828	971	28	5,780
Hedging derivatives	138	605	102		845
Financial assets held to maturity	26	174		0	199
Loans and advances (at amortised cost)	61,898	61,671	15,000	280	138,848
Loans commitments granted(1)	939	614	114	5	1,671
Guarantee commitments granted	1,582	6,096	192	9	7,879
TOTAL	**69,362**	**89,307**	**19,381**	**321**	**178,371**

(1) Distribution by rating now takes into account the seniority of ratings but this adjustment has a very minor impact on distribution by class.
2015 figures have been reviewed.

(in EUR million)	31/12/2016 AAA to AA-	A+ to BBB-	Non investment grade	Unrated	Total
Financial assets available for sale (excluding variable income securities)	2,902	13,349	92	0	16,342
Financial assets held for trading (excluding variable income securities)	0	1,339	26	0	1,365
Derivatives held for trading	199	4,577	965	8	5,749
Hedging derivatives	14	656	20	0	690
Financial assets held to maturity	7	1,910	0	0	1,917
Loans and advances (at amortised cost)	54,781	59,472	13,852	398	128,504
Loans commitments granted	877	300	46	7	1,230
Guarantee commitments granted	183	6,056	139	5	6,383
TOTAL	**58,963**	**87,659**	**15,140**	**418**	**162,180**

d. Past-due and impaired financial assets

A financial asset is past due when the counterparty has failed to make a payment when contractually due. This is considered by contract. As an exemple, if a counterpart fails to pay the required interest at due date, the entire loan is considered as past due. Financial assets are classified as impaired in the cases described in note 1.1 "Accounting policies and valuation methods".

	31/12/2015			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	Less than 90 days	90 days to 180 days	Over 180 days	
Financial assets available for sale (excluding variable income securities)	0	0	0	212
Loans and advances (at amortised cost)	57	4	436	1,318
Other financial instruments	0	0	13	2
TOTAL	**57**	**4**	**449**	**1,532**

	31/12/2016			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets, before deducting any impairment loss
(in EUR million)	Less than 90 days	90 days to 180 days	Over 180 days	
Loans and advances (at amortised cost)	33	10	234	1,062
Other financial instruments	0	0	24	2
TOTAL	**33**	**10**	**258**	**1,064**

Forbearance

Regarding Dexia Crédit Local's activities, restructured loans include 3 different types of restructuring:

1. Restructuring related to commercial relationships with customers, which represented almost all restructuring until 2011;
2. Restructuring related to litigations, mainly on structured loans, with customers without any financial difficulties;
3. Restructuring related to financial difficulties of the counterparty both under normal relationships or under litigations.

In accordance wih the EBA's definition of Forbearance, only the 3rd case is considered as forborne loan in the context of this analysis. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments.

As at 31 december 2016, forborne assets amounted to EUR 956 million (EUR 1,092 million as at 31 december 2015).

e. Collateral and other credit enhancements obtained by taking possession of collateral during the period

There are no assets of this type in 2016 nor in 2015

f. Movements on impairment on financial assets

(in EUR million)	2015 As at 1 January	Additions(1)	Reversals	Utilisations	Other(2)	As at 31 December	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Specific impairment	**(392)**	**(311)**	**60**	**55**	**(18)**	**(606)**		**(70)**
Customer loans and advances	(306)	(198)	60		(12)	(456)		(11)
Available for sale securities	(84)	(113)		55	(6)	(148)		(54)
Fixed revenue instruments	*(43)*	*(107)*		*54*	*(1)*	*(97)*		*(54)*
Variable revenue instruments	*(41)*	*(6)*			*(4)*	*(51)*		
Accruals and other assets	(2)	(0)	0			(2)		(5)
Collective impairment	**(498)**	**(82)**	**172**	**0**	**(10)**	**(417)**		
Interbank loans and advances	(14)	(17)	10		(3)	(24)		
Customer loans and advances	(484)	(65)	162		(6)	(393)		
TOTAL	**(890)**	**(393)**	**233**	**55**	**(28)**	**(1,023)**		**(70)**

(1) The impairment on Hypo Alpe Adria Bank (HETA) is accounted for in Customers loans and advances for an amout of EUR -99 million and in Available for sale securities for an amount of EUR -98 million.
(2) Other adjustments include notably the impact of changes in exchange rates.

(in EUR million)	2016 As at 1 January	Additions(1)	Reversals	Utilisations	Other(2)	As at 31 December	Recoveries directly recognized in profit or loss	Charge-offs directly recognized in profit or loss
Specific impairment	**(606)**	**(138)**	**373**	**5**	**(2)**	**(368)**		**(104)**
Customer loans and advances	(456)	(136)	275		(2)	(319)		(77)
Available for sale securities	(148)	(2)	98	5		(47)		(26)
Fixed revenue instruments	*(97)*		*98*			*0*		*(26)*
Variable revenue instruments	*(51)*	*(2)*		*5*		*(47)*		
Accruals and other assets	(2)					(2)		
Collective impairment	**(417)**	**(96)**	**104**	**0**	**(4)**	**(413)**		
Interbank loans and advances	(24)	(35)	21			(38)		
Customer loans and advances	(393)	(61)	82		(4)	(376)		
TOTAL	**(1,023)**	**(234)**	**477**	**5**	**(6)**	**(781)**		**(104)**

(1) The provision set aside for Hypo Alpe Adria Bank (HETA) was reversed in Customers loans and advances for an amount of EUR 99 million and in Available for sale securities for an amount of EUR 98 million. Losses have been recognised for respectively EUR 34 million and EUR 26 million.
(2) Other adjustments include notably the impact of changes in exchange rates.

g. Credit risk information on loans and receivables designated at fair value through profit or loss

Dexia Crédit Local no longer holds loans and advances designated at fair value through profit or loss

h. Credit risk information about financial liabilities designated at fair value through profit or loss

(in EUR million)	Carrying amount	Amount of change in the fair value attributable to changes in the credit risk: Change of the period	Cumulative amount	Difference between carrying amount and contractually amount required to be paid at maturity (1)
As at 31 December 2015	1,986	(79)	(204)	420
As at 31 December 2016	1,797	31	(173)	385

(1) This amount includes the premium/discount and change in market value.

See also note 3.1 Financial liabilities at fair value through profit or loss.

7.3. Collateral

Nature of the assets received as collateral if this collateral can be sold or repledged

	31/12/2015		31/12/2016	
(in EUR million)	Fair value of collateral held	Fair value of collateral sold or repledged	Fair value of collateral held	Fair value of collateral sold or repledged
Debt securities	2,590	1,606	2,913	1,583
TOTAL	**2,590**	**1,606**	**2,913**	**1,583**

Collateral is obtained in connection with the repurchase agreement activities.

Financial assets pledged as collateral for liabilities or contingent liabilities

(in EUR million)	31/12/2015	31/12/2016
Carrying amount of financial assets pledged as collateral for liabilities	111,383	97,436

The amount of EUR 111 billion in 2015 and EUR 97 billion in 2016 represents the amount of liquidity paid over as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding. This amount includes neither the assets guaranteeing the covered bonds issued by Dexia Kommunalbank Deutschland and Dexia LdG Banque SA, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are close to EUR 28 billion in 2016 (EUR 30 billion in 2015) .

7.4. Interest-rate repricing risk: breakdown by remaining maturity until next refixing interest rate

Demand deposits are reported in the "Demand"column, as the information presented below takes into account the current maturity until the next date on which interest rates are reset from an accounting standpoint, rather than assumptions based on observed behavorial data.

a. Analysis of assets

	31/12/2015									
(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Depreciation	Total
Cash and central banks	2,855	1,980	0	0	0	0	0			4,835
Financial assets at fair value through profit or loss	0	1,020	49	26	13		1,062	18,006		20,175
of which trading derivatives							*1,056*	*17,744*		*18,800*
Hedging derivatives							671	6,001		6,672
Financial assets available for sale	1	1,974	955	3,545	11,351	266	356	3,837	(148)	22,137
Interbank loans and advances	565	1,675	964	2,828	818	0	26	581	(24)	7,433
Customer loans and advances	93	27,237	28,790	10,443	41,283	0	784	19,703	(850)	127,483
Fair value revaluation of portfolio hedge								1,696		1,696
Financial assets held to maturity	0	20	42	135	0	0	2			199
Accruals and other assets	17	1,340	77	0	0	36,906	0	0	(2)	38,339
of which paid cash collateral						*36,890*	*0*			*36,891*
Subtotal financial assets used to calculate the gap	*3,531*	*35,246*	*30,878*	*16,977*	*53,465*	*37,172*				
Non-financial assets						405				405
TOTAL	**3,531**	**35,246**	**30,878**	**16,977**	**53,465**	**37,577**	**2,900**	**49,823**	**(1,023)**	**229,374**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2015 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Total
Central banks	0	15,031	900	0	0	0	1		15,932
Financial liabilities at fair value through profit and loss	0	65	0	180	1,307	0	993	20,234	22,778
Of which trading derivatives							*979*	*19,813*	*20,792*
Hedging derivatives							1,270	28,708	29,978
Interbank borrowings and deposits	109	22,598	21,950	3,092	1,740	0	63	17	49,569
Customer borrowings and deposits	2,121	2,404	3,507	848	446	0	28	45	9,399
Debt securities	0	22,375	20,082	25,572	18,189	0	697	4,617	91,532
Fair value revaluation of portfolio hedge								170	170
Subordinated debts	0	401	0	85	0	0	3	3	492
Accruals and other liabilities	11	1,150	28	36	45	4,837	0		6,108
Of which received cash collateral						*4,811*	*0*		*4,812*
Subtotal financial liabilities used to calculate the gap	*2,241*	*64,024*	*46,468*	*29,812*	*21,728*	*4,837*			
Non-financial liabilities						319			319
TOTAL	**2,241**	**64,024**	**46,468**	**29,812**	**21,728**	**5,156**	**3,054**	**53,795**	**226,277**

c. Balance-sheet sensitivity gap as at 31/12/2015

(in EUR million)	Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity
	1,291	(28,778)	(15,590)	(12,834)	31,737	32,335

Balance-sheet sensitivity gap is hedged through derivatives.

a. Analysis of assets

(in EUR million)	31/12/2016 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undeter-mined maturity	Accrued interest	Fair value adjust-ment	Impair-ment	Total
Cash and central banks	1,622	2,600	0	0	0	0	0			4,222
Financial assets at fair value through profit or loss		955	0	0	39	0	957	15,830		17,780
of which trading derivatives							*947*	*15,468*		*16,415*
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	851	579	2,925	8,781	54	261	3,144	(47)	16,548
Interbank loans and advances	588	3,817	287	998	816	0	24	615	(37)	7,109
Customer loans and advances	102	22,263	23,510	9,558	41,446	104	889	21,707	(695)	118,882
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	29	48	99	1,702	0	40		0	1,918
Accruals and other assets	0	144	76	0	0	36,660	(0)	0	(2)	36,880
of which paid cash collateral						*36,632*	*(0)*			*36,632*
Subtotal financial assets used to calculate the gap	*2,313*	*30,660*	*24,501*	*13,579*	*52,783*	*36,817*				
Non-financial assets						106		0	0	106
TOTAL	**2,313**	**30,660**	**24,501**	**13,579**	**52,783**	**36,924**	**2,826**	**49,220**	**(781)**	**212,026**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2016								
	Demand	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undeter-mined maturity**	**Accrued interest**	**Fair value adjust-ment**	**Total**
Central banks	35	625	30	0	0	0	0		690
Financial liabilities at fair value through profit and loss	0	1	0	141	1,258	0	912	16,363	18,675
Of which trading derivatives							*900*	*15,978*	*16,878*
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	120	37,500	1,613	783	763	0	54	18	40,850
Customer borrowings and deposits	549	4,829	3,698	1,276	362	0	24	41	10,778
Debt securities	16	23,948	22,386	29,313	17,601	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	400	0	79	0	0	2	2	482
Accruals and other liabilities	8	326	47	33	42	3,977	0		4,434
Of which cash collateral received						*3,966*	0		*3,966*
Subtotal financial liabilities used to calculate the gap	*729*	*67,629*	*27,775*	*31,624*	*20,024*	*3,977*			
Non-financial liabilities						329			329
TOTAL	**729**	**67,629**	**27,775**	**31,624**	**20,024**	**4,306**	**2,869**	**53,702**	**208,658**

c. Balance-sheet sensitivity gap as at 31/12/2016

(in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**
	1,585	(36,969)	(3,274)	(18,045)	32,759	32,840

Balance-sheet sensitivity gap is hedged through derivatives.

7.5 Sensitivity to interest rate risk and other market risks

We also refer to the chapter Risk Management of the Management Report.

a. Treasury and Financial Markets

The Dexia Crédit Local Group mainly assesses market risk using a combination of two measurement indicators, resulting in a limit-based risk management framework.

• The Value at Risk (VaR) is a measure of the expected potential loss with a 99% confidence interval and for a holding period of ten days. Dexia Crédit Local uses a number of VaR approaches to measure the market risk inherent in its portfolios and activities:

• Directional interest rate risk and foreign exchange risk are measured via a parametric VaR approach using a methodology based on the assumed normal distribution of yields relating to various risk factors;

• Credit spread risk (also known as specific interest rate risk) and other risks in the trading portfolio are measured using a historical VaR approach of which distribution is constructed by applying historical scenarios for the relevant risk factors associated with the current portfolio.

• Limits in terms of position, maturity, market and authorised products are put in place for each type of activity, ensuring consistency between overall value limits and operational thresholds used by front office.

Stress testing completes the risk management system by exploring a range of events outside the probability framework of VaR measurement techniques. The various adverse scenarios are regularly revised and updated. the results of consolidated Stress tests and the corresponding analysis are quarterly presented to the Market risk Committee.

Value at Risk of Market Activities

The table below shows the details of VaR used for market activities, excluding the bond portfolio. At the end of December 2016, total VaR consumption stood at EUR 8.2 million, compared with EUR 13.7 million at the end of 2015.

The Dexia Crédit Local trading portfolio is composed of two groups of activity:

• transactions initiated by financial instrument trading activities until the date on which the Group was placed in orderly resolution, mostly covered back-to-back;

• transactions intended to hedge risks arising from disinvestments and sales of assets within the framework of the orderly resolution plan.

The main risk factors of the trading portfolio are:

– interest rate risk, in particular in Euro and dollar zones.

– cross currency basis swap risk,

– basis risk BOR-OIS.

Value adjustments (credit value adjustment, debit value adjustment, funding value adjustment) and their variation are not integrated in the VaR model but integrated in the stress scenario.

Value at Risk of Market Activities

(in EUR million)	2015			
VaR (10 days, 99 %)	**By risk factor**			**Overall**
	Interest rate and currency *(Banking et Trading)*	**Spread *(Trading)***	**Other risks**	
Average	9.6	4.6	0.2	14.4
Period end	10.3	3.1	0.2	13.7
Maximum	11.6	5.5	0.3	17
Minimum	6.9	3.0	0.2	12.4

Value at Risk of Market Activities

(in EUR million)	2016			
VaR (10 days, 99 %)	**By risk factor**			**Overall**
	Interest rate and currency *(Banking and Trading)*	**Spread *(Trading)***	**Other risks**	
Average	6.0	2.8	0.2	9.0
Period end	4.0	4.1	0.2	8.2
Maximum	10.4	4.1	0.2	14
Minimum	2.4	2.3	0.2	5.1

b. Balance Sheet Management (BSM)

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% movement on the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees, organised within the Management Board, to manage risk. The Dexia Crédit Local Group's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia Crédit Local's assets and liabilities after hedging for interest rate risk.

SENSITIVITY AND LIMITS OF LONG TERM ALM

(in EUR million)	2015	2016
Sensitivity	+ 2.2	+ 8.8
Limit	+/- 80	+/- 80

The sensitivity of long term ALM amounted to EUR + 8.8 million as at 31 December 2016 compared with EUR +2.2 million as at 31 December 2015. It complies with the ALM strategy, which seeks to minimise the volatility of the income statement.

c. Dexia bond portfolio exposure

(EUR billion)	2015	2016
Notional exposure	66	58

Interest-rate sensitivity

The interest-rate risk of the bond portfolio is hedged (its purpose is solely the management of the credit spread); therefore it has a very limited sensitivity to change of interest rate.

Credit spread sensitivity

A major part of AFS bond portfolios was reclassified as Loans and Receivables. The AFS reserve on these securitites is insensitive to credit spread variation.
As for other bond portfolios, the credit spread sensitivity measures the sensitivity in fair value reserve of bond portfolio classified as AFS to a basis point credit-spread increase , in millions of EUR. This sensitivity is closely monitored.

(EUR million)	2015	2016
Sensitivity	(18)	(13)

7.6. Liquidity risk

A. Analysis by term to maturity

A large part of the balance sheet consists of the revaluation of assets, liabilities and derivatives. As such revaluations vary constantly and cannot therefore be linked to the maturity of the financial instruments, they are presented under a separate column.
Demand deposits and saving deposits are included in the "Demand" column, even though they have no fixed repayment date.

a. Analysis of assets

(in EUR million)	31/12/2015									
	Demand	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Accrued interest**	**Fair value adjustment**	**Impairment**	**Total**
Cash and central banks	2,855	1,980	0	0	0	0	0			4,835
Financial assets at fair value through profit or loss	0	6	6	117	979	0	1,062	18,006		20,175
of which trading derivatives							*1,056*	*17,744*		*18,800*
Hedging derivatives							671	6,001		6,672
Financial assets available for sale	1	867	1,157	3,589	12,212	266	356	3,837	(148)	22,137
Interbank loans and advances	565	47	773	3,811	1,653	0	26	581	(24)	7,433
Customer loans and advances	93	2,711	4,706	20,364	79,974	0	784	19,703	(850)	127,483
Fair value revaluation of portfolio hedge								1,696		1,696
Financial assets held to maturity	0	20	60	117	0	0	2		0	199
Accruals and other assets	17	302	77	0	1,038	36,906	0	0	(2)	38,339
of which paid cash collateral						*36,890*	*0*	*0*		*36,891*
Subtotal financial assets used to calculate the gap	*3,531*	*5,933*	*6,780*	*27,997*	*95,856*	*37,172*				
Non-financial assets						405		0	0	405
TOTAL	**3,531**	**5,933**	**6,780**	**27,997**	**95,856**	**37,577**	**2,900**	**49,823**	**(1,023)**	**229,374**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2015								
	Demand	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Accrued interest**	**Fair value adjustment**	**Total**
Central banks	0	15,031	900	0	0	0	1	0	15,932
Financial liabilities at fair value through profit and loss	0	0	70	118	1,364	0	993	20,234	22,778
Of which trading derivatives							*979*	*19,813*	*20,792*
Hedging derivatives							1,270	28,708	29,978
Interbank borrowings and deposits	49	5,647	34,096	7,782	1,857	59	63	17	49,569
Customer borrowings and deposits	2,020	2,286	3,567	851	602	0	28	45	9,399
Debt securities		13,143	21,437	31,902	19,736	0	697	4,617	91,532
Fair value revaluation of portfolio hedge								170	170
Subordinated debts	0	0	0	462	23	0	3	3	492
Accruals and other liabilities	11	913	26	36	284	4,837	0		6,108
of which received cash collateral						*4,811*	*0*		*4,812*
Subtotal financial liabilities used to calculate the gap	*2,080*	*37,021*	*60,095*	*41,151*	*23,865*	*4,896*			
Non-financial liabilities						319			319
TOTAL	**2,080**	**37,021**	**60,095**	**41,151**	**23,865**	**5,215**	**3,054**	**53,795**	**226,277**

Net liquidity gap as at 31 December 2015 (in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**
	1,451	(31,088)	(53,315)	(13,154)	71,991	32,276

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

a. Analysis of assets

(in EUR million)	31/12/2016 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Depreciation	Total
Cash and central banks	1,622	2,600	0	0	0	0	0			4,222
Financial assets at fair value through profit or loss	0	6	32	42	915	0	957	15,830		17,780
of which trading derivatives							*947*	*15,468*		*16,415*
Hedging derivatives							656	6,175		6,830
Financial assets available for sale	0	278	514	2,908	9,436	54	261	3,144	(47)	16,548
Interbank loans and advances	588	438	825	3,233	1,423	0	24	615	(37)	7,109
Customer loans and advances	102	2,099	4,323	16,642	73,712	104	889	21,707	(695)	118,882
Fair value revaluation of portfolio hedge								1,750		1,750
Financial assets held to maturity	0	28	48	101	1,702	0	40			1,918
Accruals and other assets	0	144	76	0	0	36,660	(0)	0	(2)	36,880
of which paid cash collateral						*36,632*	*(0)*			*36,632*
Subtotal financial assets used to calculate the gap	*2,313*	*5,592*	*5,818*	*22,925*	*87,188*	*36,817*				
Non-financial assets						106		0	0	106
TOTAL	**2,313**	**5,592**	**5,818**	**22,925**	**87,188**	**36,924**	**2,826**	**49,220**	**(781)**	**212,026**

b. Analysis of liabilities excluding shareholders' equity

(in EUR million)	31/12/2016 Demand	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Accrued interest	Fair value adjustment	Total
Central banks	35	625	30	0	0	0	0	0	690
Financial liabilities at fair value through profit and loss	0	0	4	88	1,309	0	912	16,363	18,675
Of which trading derivatives							*900*	*15,978*	*16,878*
Hedging derivatives							1,206	32,590	33,796
Interbank borrowings and deposits	119	18,743	3,392	14,766	3,757	0	54	18	40,850
Customer borrowings and deposits	549	3,935	4,426	1,273	531	0	24	41	10,778
Debt securities	0	15,467	25,650	33,413	18,734	0	671	4,589	98,524
Fair value revaluation of portfolio hedge								100	100
Subordinated debts	0	0	252	163	64	0	2	2	482
Accruals and other liabilities	8	326	47	33	42	3,977	0		4,434
of which received cash collateral						*3,966*	*0*		*3,966*
Subtotal financial liabilities used to calculate the gap	*712*	*39,097*	*33,802*	*49,735*	*24,435*	*3,977*			
Non-financial liabilities						329			329
TOTAL	**712**	**39,097**	**33,802**	**49,735**	**24,435**	**4,306**	**2,869**	**53,702**	**208,658**

Net liquidity gap as at 31 December 2016 (in EUR million)	**Demand**	**Less than 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**
	1,602	(33,504)	(27,984)	(26,810)	62,753	32,840

This table does not take into account the liquidity of the asset nor its eligibility for refinancing; some listed long-term assets may be sold or refinanced with central banks in case of need of liquidity.

B. Steps taken to improve Dexia Crédit Local Group’s liquidity

Steps taken to improve Dexia Crédit Local Group’s liquidity are described in the Management Report, chapter “Information on capital and liquidity”

7.7. Currency risk

We also refer to Management Report, chapter Transformation risk, Measurement of foreign exchange risk.

Classification by original currency	31/12/2015						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	152,811	26,023	132	37,029	7,773	5,606	229,374
Total liabilities and shareholders' equity	154,631	24,514	51	40,549	5,315	4,314	229,374
NET BALANCE SHEET POSITION	**(1,820)**	**1,509**	**80**	**(3,520)**	**2,458**	**1,292**	**0**

Classification by original currency	31/12/2016						
(in EUR million)	EUR	GBP	Other EU currencies	U.S. dollars	JPY	Other currencies	Total
Total assets	133,566	26,072	109	38,798	7,997	5,484	212,026
Total liabilities and shareholders' equity	135,121	24,793	31	41,997	5,748	4,337	212,026
NET BALANCE SHEET POSITION	**(1,555)**	**1,279**	**78**	**(3,199)**	**2,249**	**1,147**	**0**

8. Segment and geographic reporting

a. Segment reporting

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing their residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors.

In line with the group's profile and strategy, Dexia Crédit Local's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

This analytical presentation of performance is in line with Dexia Crédit Local's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

b. Geographic reporting

(in EUR million)	France	Germany	Spain[(1)]	Ireland	Italy	United States	Israel	Others[(1)]	Total
As at 31 december 2015									
NET BANKING INCOME	**267**	**14**	**55**	**413**	**70**	**127**	**33**	**3**	**982**
As at 31 december 2016									
NET BANKING INCOME	**272**	**54**	**37**	**227**	**68**	**17**	**31**	**5**	**711**

(1) The figures as at 31 december 2015 have been restated in order to present Spain distinctly from Portugal, while they were previously globalised.

Statutory Auditors' report on the consolidated financial statements

For the year ended December 31st, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31st, 2016, on:

– the audit of the accompanying consolidated financial statements of Dexia Credit Local;

– the justification of our assessments;

– the specific verification required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31st, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in the note 1 (§ 1.1.1.1) to the consolidated financial statements which stipulates that the consolidated financial statements of Dexia Credit Local have been prepared on a going concern basis.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments that we bring the following matters to your attention:

Accounting principles

Going concern basis

Our work consisted in assessing the items used by the Board of Directors to justify maintaining the going concern basis of accounting and in gaining an understanding of the underlying documentation and more specifically the business plan and funding forecast.

We also reviewed the information disclosed in the notes to the consolidated financial statements with respect to the going concern basis of accounting and related uncertainties.

Accounting estimates

Measurement of financial instruments

Your Company, as mentioned in note 1.1.7 to the financial statements, uses methodologies and internal models to value financial instruments that are not listed on active markets, and for the recognition of any impairment.

Our work consisted in reviewing the control procedures for the identification of financial instruments that can no longer be traded on an active market or whose valuation parameters are no longer observable; in determining the models used to measure them; in evaluating the appropriateness of the data and assumptions; and in verifying that the risks, results related to these instruments were taken into account and financial information including sensibility to alternative assumptions.

Provisions for credit and counterparty risks

As mentioned in note 1.1.6.5 to the consolidated financial statements, your company records impairment provisions to cover the credit risks inherent to its.

We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of impairment loss cover provided by specific and collective provisions.

Provisions for legal risks

As mentioned in notes 1.1.22 and 3.7 to the consolidated financial statements, your company has set aside a provision for liabilities and charges in order to cover the litigation risk relating to structured loans.

We analyzed the assumptions used to calculate the provision for litigation, including those relating to the expected changes in the legislative framework.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

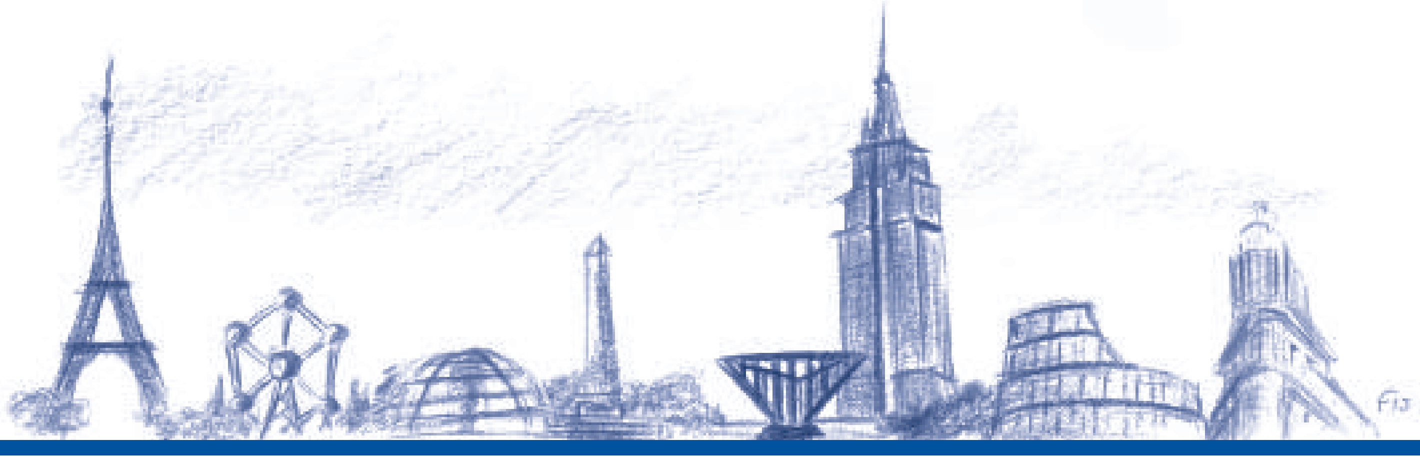
As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-Sur-Seine and Courbevoie, March 28, 2017

French original signed by the statutory auditors

MAZARS		DELOITTE & ASSOCIÉS	
Franck BOYER	Claire GUEYDAN-BRUN	Pascal COLIN	Jean-Vincent COUSTEL



Financial statements

Balance sheet

Assets

(in EUR million)	Note	As at 31/12/2015	As at 31/12/2016
I. Cash, central banks and postal checking accounts	2.1	2,229	767
II. Government securities	2.2	3,295	3,214
III. Interbank loans and advances	2.3	23,117	22,243
IV. Customer loans and advances	2.4	32,723	35,185
V. Bonds and other fixed-income securities	2.5	38,060	36,875
VI. Equities and other variable-income securities	2.6	183	152
VII. Long-term equity investments	2.7	1,303	588
VIII. Intangible assets	2.8	22	28
IX. Tangible fixed assets	2.9	4	3
X. Unpaid capital		0	0
XI. Uncalled capital		0	0
XII. Treasury stock		0	0
XIII. Other assets	2.10	27,539	28,006
XIV. Accruals	2.10	9,880	8,069
TOTAL ASSETS		**138,355**	**135,130**

Liabilities and equity

(in EUR million)	Note	As at 31/12/2015	As at 31/12/2016
I. Interbank borrowings and deposits	3.1	53,362	40,308
II. Customer deposits	3.2	103	163
III. Debt securities	3.3	65,784	75,900
IV. Other liabilities	3.4	4,321	4,618
V. Accruals	3.4	11,526	10,116
VI. Provisions for risks and charges	3.5	1,798	2,055
VII. General banking risks reserve		0	0
VIII. Subordinated debt	3.6	435	435
EQUITY	3.7	**1,026**	**1,535**
IX. Capital stock		224	279
X. Additional paid-in capital		1,885	2,588
XI. Reserves and retained earnings		(1,143)	(1,115)
XVII. Net income (loss) for the year		60	(217)
TOTAL DU PASSIF		**138,355**	**135,130**

Off-balance sheet items

(in EUR million)	Note	As at 31/12/2015	As at 31/12/2016
COMMITMENTS GIVEN			
I. Financing commitments given	*4.1*	4,448	3,290
II. Guarantee commitments given	*4.2*	37,675	33,676
III. Other commitments given	*4.3*	36,529	38,534
COMMITMENTS RECEIVED			
IV. Financing commitments received	*4.4*	2,131	5,718
V. Guarantee commitments received	*4.4*	19,491	18,485
VI. Commitments related to securities	*4.5*	34	0
VII. Commitments related to foreign currency transactions	*4.6*	52,330	59,480
VIII. Commitments related to forward and derivative financial instruments	*4.7*	262,960	295,395

Income statement

(in EUR million)		Note	Montant au 31/12/2015	Montant au 31/12/2016
I.	Interest income	5.1	2,896	4,764
II.	Interest expense	5.1	(2,445)	(4,521)
III.	Income from variable-income securities	5.2	2	13
IV.	Fee and commission income	5.3	2	2
V.	Fee and commission expenses	5.3	(9)	(12)
VI. A	Net gains (losses) on held-for-trading portfolio transactions	5.4	(178)	(23)
VI. B	Net gains (losses) on available-for-sale portfolio transactions	5.4	(75)	365
VI. C	Net gains (losses) on held-to-maturity portfolio transactions	5.4	120	84
VII.	Other banking income	5.8	1	19
VIII.	Other banking expenses	5.8	0	(31)
NET BANKING INCOME (LOSS / PROFIT)			**314**	**661**
IX.	General operating expenses	5.5	(296)	(287)
X.	Depreciation and amortisation		(4)	(8)
GROSS OPERATING INCOME (LOSS / PROFIT)			**14**	**366**
XI.	Cost of risk	5.6	(7)	(10)
OPERATING INCOME (LOSS / PROFIT) AFTER COST OF RISK			**7**	**356**
XII.	Net gains (losses) on non-current assets	5.7	52	(550)
INCOME (LOSS / PROFIT) BEFORE TAX			**59**	**(194)**
XIII.	Non-recurring items	5.9	0	0
XIV.	Corporate income tax	5.10	1	(23)
XV.	Net change in general banking risks reserve		0	0
NET INCOME (LOSS / PROFIT)			**60**	**(217)**
BASIC EARNINGS PER SHARE (EUR)			0.27	(0.78)
FULLY DILUTED EARNINGS PER SHARE (EUR)			0.27	(0.78)

Notes to the financial statements

Accounting policies and valuation methods

1.1. Significant events in 2016

The significant events of the financial year are as follows:

- ·By resolution of the extraordinary shareholders' meeting held on 28 June 2016, Dexia Crédit Local increased its capital with a cash contribu-tion of a sum of EUR 250 million (premium included) by the issue of new shares maintaining the shareholders' preferential subscription right.
This capital increase was realised by Dexia SA with the issue of 55,555,556 new shares with a nominal value of EUR 1 and an issue premium of EUR 3.5 per share. Dexia Crédit Local's share capital is now EUR 279,213,332 represented by 279,213,332 shares with a nominal value of EUR 1;

- ·On 1 November 2016, the Spanish banking subsidiary Dexia Sabadell was dissolved without liquidation by the cross-border merger by way of a100% absorption by DCL. In this way, DCL acquires the entirety of the asset and liability elements of its subsidiary. Concomitantly, two new DCL branches were created, DCL Madrid and DCL Lisbon. A merger premium of EUR 508.6 million was recorded in the equity capital of DCL. This merger falls within the framework of the orderly resolution plan aimed at a legal simplification of the Dexia Group and a rationalisation of asset management;

- ·Dexia Crédit Local made a provision for depreciation of the shares of its subsidiary Dexia Kommunalbank Deutschland AG in an amount of EUR 560 million.
The value of that holding on 31 December 2016, shown in the Dexia Crédit Local balance sheet at a gross value of EUR 793 million, was es-tablished by way of utility value. The net value of the shares is thus EUR 233 million as at 31 December 2016

1.2. Accounting policies and valuation methods used to present the financial statements

The statutory and consolidated financial statements of Dexia Crédit Local as at 31 December 2016 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed hereafter were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the overall plan.

- In particular, the updates made on the basis of market data observable at the end of September 2012 and validated by the Board of Directors of Dexia on 16 November 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and implementation of the IFRS 9 accounting standard from 2018, based on the assumptions known to date.

- The business plan revised leads to adjustments in relation to the original plan. These result in a significant change to the trajectory of the Group's resolution as initially anticipated, but at this stage do not raise questions as to the nature and the fundamentals of the resolution.

- The business plan assumes the maintenance of the banking licences of the various entities and the rating of Dexia Crédit Local.

- It moreover assumes that Dexia Crédit Local will retain a sound funding capacity, which relies in particular on the appetite of investors for debt guaranteed by the Belgian, French and Luxembourg States as well as on the Group's capacity to raise secured funding.

- From this perspective, since validation of the orderly resolution plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase of market funding, both secured and guaranteed, at a cost considerably lower than anticipated in the business plan, and for larger volumes and longer maturities. This has enabled Dexia Crédit Local to reduce its reliance on central bank funding and to exit the exceptional funding mechanisms put in place in 2012. With its prudent liquidity management, Dexia Crédit Local has also established liquidity reserves with the aim of protecting itself against the increase in the amount of cash collateral[1] paid to its derivatives counterparties. These reserves amounted to EUR 18.2 billion as at 31 December 2016.

- However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

(1) Deposits or securities posted by Dexia and Dexia Crédit Local to their counterparties as guarantee for interest rate or currency swaps.

• It is in particular exposed to the evolution of accounting and prudential rules.

• The financial characteristics of Dexia and Dexia Crédit Local since their entry in resolution do not allow them to ensure compliance with certain regulatory ratios over time.

• Dexia and Dexia Crédit Local are also sensitive to the evolution of their macroeconomic environment and to market parameters, including exchange rates, interest rates and credit spreads, fluctuations of which are liable to impact the business plan. In particular, an unfavourable evolution of these parameters over time may weigh on the Dexia and Dexia Crédit Local's liquidity and solvency position, by increasing the amount of cash collateral paid by Dexia to their derivatives counterparties (the sensitivity of the liquidity requirement to that parameter being in the order of EUR +1 billion for a decrease of 10 basis points in long-term rates) or an impact on valuations of the financial assets and liabilities and OTC derivatives, fluctuations of which are booked in the income statement and are liable to result in a fluctuation of the AFS reserve and the level of regulatory capital.

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• Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local may need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.

The financial statements have been prepared in accordance with the principles and standards contained in European Council Directives governing the financial statements of banking institutions, in compliance with Regulation n° 2014-07, regarding the preparation of individual financial statements.

a. Changes in accounting policies and valuation methods applied to the financial statements

No changes have been made to the accounting policies and valuation methods applied to the financial statements.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The summary financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:

• going concern assumption;
• matching principle;
• consistency criterion.

Customer loans

Any loans approved but not yet disbursed are shown as off-balance sheet items.

Current and accrued interest on customer loans is recognised in banking income on an accrual basis, as is the interest on overdue payments. Interest on non-performing loans reported in net banking income is neutralised by the recognition of an equivalent amount of impairment.

Related fees and commissions received and incremental transaction costs on extending or acquiring credits, if significant, are spread over the effective life of the loan. Other fees received are recorded directly to income.

For both accounting and tax purposes, all early repayment penalties on loans recognised up to 31 December 2004 will continue to be amortised over the remaining life of the related loans in proportion to the outstanding interest that would have had to be paid. The balance of outstanding penalties to be amortised is classified under deferred income.

Since 1 January 2005, all early repayment penalties on loans have been taken into income at the repayment date.

Customer loans are stated in the balance sheet net of provisions for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.

Non-performing loans are considered to be doubtful as soon as it becomes apparent that they will probably or certainly not be repaid. Non-performing loans are defined as any loans that are more than three months overdue in accordance with the prudential definition of default published by the European Banking Authority and regulation published by the ECB as single supervisor. Loans to borrowers that have been subject to formal alert procedures or filed for bankruptcy are classified as loans under collection, this category being analysed in the notes to the financial statements in the same way as non-performing loans.

Impairment on non-performing loans is computed on the basis of the estimated loss exposure. Interest is written down in full.

Non-performing loans are considered to be doubtful as soon as their repayment becomes highly uncertain and it becomes apparent that they will eventually be written off.

Non-performing loans are downgraded from "under collection" to "doubtful" either one year at the latest after becoming non-performing, or immediately if the loan had previously been classified as a restructured performing loan. The interest on these loans is no longer included in interest income once they have been classified as doubtful non-performing.

Loans that have been restructured under non-market conditions are included in the second category until their final maturity. They are written down for impairment in an amount equal to the present value of the future interest payments gap. This write-down is taken immediately into expense under the cost of risk, and is reversed into income on an accrual basis over the remaining term of the loan.

Securities transactions

The securities held by Dexia Crédit Local are recorded on the balance sheet under the following asset headings:

• government securities eligible for Central Bank refinancing;
• bonds and other fixed-income securities;
• equities and other variable-income securities.

In accordance with Regulation n° 2014-07, they are broken out in the notes to the financial statements into "Held-for-trading securities", "Available-for-sale securities" and "Held-to-maturity securities".

Held-for-trading securities

Held-for-trading securities are securities traded on a liquid market that are purchased or sold with the intention of being sold or repurchased within a short period of time. The Dexia Crédit Local held-for-trading portfolio consists primarily of adjustable-rate bonds. Held-for-trading securities are taken to the balance sheet at cost, including accrued interest and excluding acquisition costs. At each period end, they are marked to market and the resulting unrealised gain or loss is taken to the income statement.

Available-for-sale securities

These consist of securities that are not recognised as held-for-trading securities, held-to-maturity securities, portfolio securities, other long-term investments, investments in associates or investments in related parties.

The portfolio consists primarily of fixed and adjustable-rate bonds, but also includes some variable-income securities. Fixed-rate bonds are generally hedged against interest rate risks by means of interest rate and/or currency swaps classified as hedges. The use of this technique has the effect of creating synthetic adjustable or variable-rate assets that are immunised against interest rate risks.

Available-for-sale securities are taken to the balance sheet at cost, excluding acquisition costs and accrued interest, which are recorded separately. Any premiums or discounts, corresponding to the difference between the acquisition cost and redemption price, are recorded on the balance sheet and amortised to the income statement on a quasi-yield-to-maturity basis over the remaining life of the securities. This method is applied to all securities in the portfolio.

At the reporting date, in application of the prudence principle, available-for-sale securities are recorded on the balance sheet at the lower of their acquisition cost and their selling price at the reporting date, after taking into account gains on micro hedging transactions for purposes of calculating the reduction in their value.

If no active market is available for a given financial instrument, valuation techniques are used to calculate the realisable value (or the market value, as defined elsewhere in the notes) of the instrument. The valuation model should take into account all the factors that market participants would consider when pricing the asset. In such cases, Dexia Crédit Local uses its own valuation models, taking account of market conditions at the date of the valuation as well as of any changes in the credit risk quality of these financial instruments and market liquidity.

If the potential decrease in the value of the securities exceeds the related unrealised hedging gain, a provision corresponding to the difference is deducted from the securities' carrying amount. A reserve is booked on the liabilities side of the balance sheet for any unrealised hedging losses that are not offset by an increase in the market value of the hedged securities.

Gains and losses on disposals of marketable available-for-sale securities are calculated on a FIFO basis.

Any available-for-sale securities transferred to the held-to-maturity portfolio are transferred at cost.

Any provisions for impairment that are no longer required at the date of transfer are released to the income statement over the remaining life of the securities.

Held-to-maturity securities

Held-to-maturity securities consist of fixed-income securities with fixed maturities that have been acquired or transferred from "available-for-sale securities" and "held-for-trading securities" with the explicit intention of being held to maturity.

They are either financed with back-to-back resources or hedged in order to neutralise the effect of interest rate fluctuations on earnings. The hedging instruments used consist solely of interest rate and/or currency swaps.

The use of these specific, allocated hedges has the effect of creating synthetic adjustable- or variable-rate assets that are immunised against interest rate risks.

Held-to-maturity securities are stated at cost, excluding acquisition costs and accrued interest at the date of acquisition, which are recorded separately. Premiums and discounts, representing the difference between the cost of the securities, excluding accrued interest, and the redemption price, are amortised on a yield-to-maturity basis over the remaining life of the securities.

Unrealised gains are not recognised and no provisions are booked for unrealised losses at the balance sheet date except in cases where:

- the ability of the issuer to honour its repayment obligations appears uncertain; or
- it is probable that the securities will not be held to maturity due to a change in circumstances.

Should held-to-maturity securities be sold or transferred to another portfolio category for an amount that is material relative to the total value of all held-to-maturity securities, Dexia Crédit Local would no longer be authorised to classify any securities previously or subsequently acquired as held-to-maturity until the third following full fiscal year, unless said sale or transfer does not call into question the bank's intention of maintaining its other held-to-maturity securities until their actual maturity (e.g. sale of one particular held-to-maturity security whose issuer's credit quality has deteriorated significantly, or in the case of held-for-trading or available-for-sale securities that were previously transferred into held-to-maturity under extraordinary market conditions that required a change of strategy and which may once more be traded on an active market). All previously acquired held-to-maturity securities are reclassified as "available-for-sale securities" at their carrying amount at the same time that the other securities are reclassified.

Portfolio securities

This category includes variable-income securities purchased on a regular basis with the intention of selling them at a profit in the medium-term. At the time of purchase, the company has no intention of investing in the long-term development of the issuer's business or of actively participating in its day-to-day management.

Portfolio securities are taken to the balance sheet at cost excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value is determined based on a range of criteria, including the issuer's outlook and the length of the estimated holding period. For listed securities, fair value is the average market price determined over a sufficiently long period in view of the estimated holding period to eliminate the impact of any wide swings in market prices. At each period end, and for each line of securities, if the fair value represents less than carrying amount, a provision is booked for the unrealised loss. For the purpose of determining the provision, unrealised losses are not netted against unrealised gains, which are not recognised.

Gains and losses on disposals of portfolio securities are determined on a FIFO basis.

Sale and repurchase agreements and lending of securities

Securities may be sold under repurchase agreements, lent or borrowed for the purpose of reducing Dexia Crédit Local's short-term liquidity cost.

The securities may or may not be physically delivered to the buyer.

When securities are sold under a repurchase agreement, a debt corresponding to the value of the repurchase commitment is recognised on the balance sheet. The interest paid on the funds received is recognised in the income statement on an accrual basis.

Gains and losses on repurchase agreements are calculated using the same method as for outright sales, depending on the portfolio from which the securities were taken.

Transactions involving the simultaneous cash sale and forward purchase of the same securities are accounted for in the same way as repurchase agreements. The cash held in connection with repurchase agreements is periodically adjusted to take account of changes in the market value of the securities during the term of the contract, so as to reduce the credit risk incurred by the buyer as a result of any impairment in value of the collateral represented by the securities.

Loaned securities are reclassified as receivables for an amount equal to the carrying amount of the loaned securities. At each balance sheet date, the receivable is re-measured using the valuation principles applicable to the securities that have been loaned.

Borrowed securities are recorded as held-for-trading securities, with a contra entry to a liability to the lender. At each balance sheet date, the borrowed securities and the corresponding liability are re-measured using the valuation principles applicable to held-for-trading securities.

Long-term investments

Investments in associates

Investments in associates represent investments that are intended to be useful to the Group's activities over the long term. They are intended to:

- be held on a long-term basis to exercise influence or control over the issuer; or
- underpin banking relations with the company concerned.

They are stated at cost excluding any related acquisition costs. At the balance sheet date, these shares are measured at the lower of cost and value in use, i.e. the fair value based on the utility of the investment to Dexia Crédit Local.

In the case of companies whose net assets are at least equal to their value when the last shares were acquired, with prior-year positive earnings or an outlook for genuine recovery in the current year, value in use to the Group is considered as being at least equal to the historical cost of the investment. In all other cases, a range of criteria are applied to determine the possible need to record a provision for impairment in value in accordance with the prudence principle.

In accordance with Regulation n° 2014-07, differences arising on translation at the year-end rate of investments denominated in foreign currencies that are financed in euros are taken to equity, under "Accumulated translation adjustments", and not to the income statement.

In the event of disposal of part of the Group's interest in an associate, the resulting gain or loss is determined on a FIFO basis.

Other long-term investments

This category comprises variable-income securities acquired with the aim of developing long-term business ties with the issuer, although Dexia Crédit Local is not in a position to influence the management of the issuer due to the small proportion of voting rights held. Other long-term securities are taken to the balance sheet at cost, excluding acquisition costs. At each period end, they are stated at the lower of historical cost and fair value. The fair value is determined for listed and unlisted securities held over the long term based on the amount the company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them. Gains and losses on disposals of long-term investment securities are determined on a FIFO basis.

Tangible and intangible assets

These assets are stated at cost and depreciated or amortised using the straight-line method over their estimated useful life, at the rate at which their future economic benefits are consumed.

Unless otherwise stated, furniture and fixtures are depreciated over ten years and office equipment generally over five years. Software is amortised over three to five years.

Other assets

This heading includes mainly collateral (guarantee deposits) receivable under swap transactions, which is recognised at its carrying amount.

Debt securities

Debt securities include bonds and negotiable debt securities.

Bonds

Bonds are recorded at face value. All related accrued interest is computed at contractual rates and recorded under interest expense.

Zero-coupon bonds are recorded at their issue price. At each period end, accrued interest for the period, computed on the basis of the yield to maturity announced at the time of issue, is charged to the income statement as expenses on debt securities and an equivalent amount is added to the debt on the liabilities side of the balance sheet until the maturity date so as to gradually increase the carrying amount of the debt to the amount repayable at maturity.

Bond issuance costs are deferred and amortised on a straight-line basis over the life of the bonds. Since 1 January 2005, premiums paid or received on bonds acquired by Dexia Crédit Local are recognised directly through profit or loss.

Bonds denominated in foreign currencies are accounted for in the same way as foreign currency transactions.

Negotiable debt securities

Negotiable debt securities are stated at face value. Interest on medium-term notes, BMTN (domestic short- or medium-term notes) and negotiable certificates of deposit is recorded under "Interest expense" on an accrual basis. Prepaid interest on commercial paper is recorded under "Accrued assets" on the transaction date and amortised over the residual life of the paper.

Discounts and premiums on debt securities

Bond discounts and premiums and redemption premiums are amortised on a straight-line basis over the remaining life of the bonds from the date of acquisition. They are recorded on the consolidated balance sheet under the relevant liabilities accounts. Amortisation is taken to the income statement under "Interest expense on bonds and other fixed-income securities".

Other liabilities

This heading includes mainly collateral (guarantee deposits) payable under swap transactions, which is recognised at its carrying amount.

Reserves

Provisions for risks and charges are set aside at their present value when:

• Dexia Crédit Local has a present legal or constructive obligation as a result of past events;

• it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

• a reliable estimate of the amount of the obligation can be made.

General (or collective) provisions on customer loans are included in this heading. These provisions cover the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending-related commitments at the balance sheet date. These losses are estimated based upon experience, historical patterns of losses in each segment and the current economic environment in which the borrowers operate. For this purpose, Dexia Crédit Local has developed credit risk models using an approach that combines default probabilities and losses given default.

Regulatory tax reserves are set aside in the financial statements for accelerated tax depreciation. Reserves against forward and derivative financial instruments are booked in accordance with the rules specified in the paragraph concerning forward and derivative financial instruments.

Retirement and other post-employment benefits are calculated in accordance with the local regulations applicable in each country and are recognised as expenses for the year. These commitments are recalculated each year using an actuarial method and recognised under reserves in accordance with Recommendation 2013-02 on the evaluation and recognition of pension liabilities for annual and consolidated accounts prepared in accordance with French accounting standards.

These reserves also include provisions for deferred taxes.

Subordinated liabilities

Subordinated redeemable notes issued by Dexia Crédit Local are considered as Tier 2 capital for the purpose of calculating the European capital adequacy ratio, in accordance with EC Regulation n° 575/2013.

Forward and derivative financial instruments

Dexia Crédit Local uses forward and derivative financial instruments in the normal course of business, mainly as hedges against interest rate and currency risks and, to a lesser extent, in order to take advantage of favourable interest rate and currency trends. The instruments used include interest rate and/or currency swaps, FRAs, caps, floors, interest rate options, futures, credit default swaps and credit spread options.

Forward and derivative financial instruments are valued and accounted for in four transaction categories, in accordance with Regulation n° 2014-07 based on the initial purpose of the transaction.

The four transaction categories are specific hedges, macro-hedges, isolated open positions and specialist portfolio management; each has its own rules for measurement and recognition.

For transactions in all categories, the commitment or notional amount is recorded as an off-balance sheet commitment over the life of the contract, i.e. from the date of signing of the contract to its maturity or the start date of the reference period in the case of forward rate agreements. The amount of the commitment is adjusted to reflect any changes in notional amounts, so as to show at all times the maximum current or future commitment. Each contract is recorded separately and is classified in one of the above four categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

Upfront equalisation payments on hedging transactions are amortised over the remaining life of the instrument. All transactions are amortised on a quasi-yield-to-maturity basis.

Hedging transactions

Micro hedging

Micro-hedges are used to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset. The criteria applied to determine whether transactions qualify as micro-hedges are as follows:

• the hedged item must contribute to the bank's overall exposure to fluctuations in prices or interest rates;

• the contracts must be purchased or sold for the specific purpose, and must have the specific effect, of reducing the bank's exposure to fluctuations in prices or interest rates in respect of the hedged item and must be identified as such at the outset.

Instruments meeting this definition consist primarily of swaps acquired as micro-hedges of primary issues, bonds held in the "available-for-sale" and "held-to-maturity" portfolios and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities, which are immunised against interest rate risks.

Expenses and income on micro-hedges are recorded in the income statement in the same way as the expenses and income on the hedged item or group of similar items.

In cases where the hedged item is repaid early (or disposed of), the following accounting treatment is applied to the equalisation payment received or paid due to the early unwinding of the hedging instrument:

• if the hedge was unwound before 1 January 2005, the equalisation payment is spread over the remaining life of the cancelled transaction;

• if the hedge was unwound on or after 1 January 2005, the equalisation payment is recognised in profit or loss during the period in which the hedge was unwound. However, the equalisation payment paid by Dexia Crédit Local is charged against income only for the portion that exceeds gains not yet recorded in income on the symmetric position.

In both cases, deferred equalisation payments are recorded in accrued assets or liabilities.

In the case where the hedging item is unwind or replaced by an other instrument with continuation of the hedged instrument, the equalization payment is spread over the remaning life of the hedged item.

Macro hedging

This category includes contracts that are intended to hedge and manage Dexia Crédit Local's overall exposure to interest rate risks on assets, liabilities and off-balance-sheet items, other than micro-hedges, contracts representing isolated open positions and contracts acquired for specialist portfolio management purposes.

Macro-hedges have the effect of reducing Dexia Crédit Local's overall exposure to interest rate risks on its business transactions.

Expenses and income on macro-hedges are recorded in the income statement on an accrual basis under "Interest expense on macro-hedges" and "Interest income on macro-hedges". The contra entry is recorded on the balance sheet in an accruals account until such time as the funds are collected or disbursed.
In the event of the unwinding of a macro-hedge, the equalisation payment is recognised as follows:
• equalisation payments on swaps unwound before 1 January 2005 are amortised when the unwinding of the position is not linked to a prior change in the overall interest rate risks to be hedged, or are taken into income symmetrically to those components that resulted in the modification of said risk.
• as from 1 January 2005, the equalisation payment is recognised through profit or loss.

Position management

Dexia Crédit Local conducts two types of position management transactions:
• specialist held-for-trading portfolio management;
• position-taking.

Specialist held-for-trading portfolio management

This activity covers transactions with local authorities and their symmetrical transactions entered into with banks. Its purpose is the specialist management of a held-for-trading portfolio comprising specific interest rate swaps and other interest rate-based derivatives.
The held-for-trading portfolio is actively managed based on sensitivity criteria, with predefined interest rate exposure limits set internally in accordance with the Arrêté of 3 November 2014 as amended. Positions are centralised and results calculated on a daily basis.
Gains and losses are recognised on a mark-to-market basis, as follows:
• total future cash flows are marked to market on a monthly basis and the resulting unrealised gain or loss is taken to the income statement;
• all payments made or received are recorded directly in the income statement.
Mark-to-market gains and losses on derivatives are calculated using the replacement cost method. This method consists of taking each individual contract and simulating a new contract, which, at the balance sheet date, closes the open position created by the original contract. The differences in cash flows between the actual and simulated contracts are then discounted.
The portfolio valuation takes into account portfolio management costs and counterparty risks.
For the purposes of this activity, the Dexia Crédit Local New York branch centrally manages the risks generated by the portfolios. Risk is transferred using internal contracts. These contracts are put in place, recorded and valued in accordance with Regulation n° 2014-07.

Position-taking

Derivatives held in the position-taking portfolio are intended to keep isolated positions open in order to take advantage of any favourable interest rate movements. The portfolio also includes all contracts (including credit derivatives) that do not fulfil the criteria for classification as specialist portfolio management.
Gains and losses are recognised in accordance with the prudence principle as follows:
• provisions for risks are booked for any unrealised losses calculated as a result of periodic mark-to-market valuations; unrealised gains are not recognised in the income statement;
• interest and equalisation payments are recognised in the income statement on an accrual basis.

Foreign exchange transactions

Dexia Crédit Local uses currency swaps and forward purchases and sales of foreign currencies to hedge its currency risks. Currency swaps are used to match funding currencies with the currencies of the assets financed. Forward purchases and sales of foreign currencies are used to offset or reduce the impact of exchange rate fluctuations on specific items or groups of similar items. A limited number of unhedged foreign exchange positions are also established in connection with Dexia Crédit Local's position-taking activities.
In accordance with Regulation n° 2014-07, currency instruments are classified as either hedged transactions or position-management transactions. This categorisation determines the applicable accounting treatment for the related gains and losses.
Currency instruments in both categories are recorded as off-balance-sheet commitments over the life of the contract, i.e. from the date of signing of the contract to the start date of the reference period.
Each contract is recorded separately and is classified in one of the above categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

Hedging transactions

Forward points – the difference between the forward rate and the spot rate – are recognised in the income statement on an accrual basis. The position is initially recorded at the spot rate and its value is gradually adjusted over the life of the contract to take account of the forward points.

Position-transactions management

These represent forward currency transactions that do not meet the criteria for qualification as hedged forward currency transactions as defined in Regulation n° 2014-07, in that they do not relate simultaneously to loans and borrowings or to spot currency transactions. Such transactions are entered into with the aim of taking advantage of exchange rate movements.
Gains and losses on position-management transactions are determined and accounted for by translating movements in the currency accounts into euros at the forward rate applicable to the remaining terms of the contracts.

Foreign currency transactions

In accordance with Regulation n° 2014-07, Dexia Crédit Local recognises foreign currency transactions in accounts opened and denominated in each of the currencies concerned.
Specific foreign currency position accounts are maintained in each currency showing the position in that currency and the euro equivalent.
At each period end, the difference between the value of the foreign currency position account translated into euro at the year-end spot rate and the value of the foreign currency position in the euro equivalent account is taken to the income statement. Differences arising on the translation into euro of investments in foreign currency-denominated non-consolidated companies financed in euros are recorded on the balance sheet under "Accumulated translation adjustments".

Differences arising on the translation into euros of held-to-maturity securities denominated and financed in foreign currencies are recognised on a symmetrical basis with the differences arising on translation of the related financing.
The balance sheets of foreign consolidated branches of Dexia Crédit Local are translated into euros at the period-end exchange rate, with the exception of equity, which is translated at the historical rate.
Income statement items are translated at the average rate for the period. Differences arising on translation are recorded as a separate component of equity under "Accumulated translation adjustments".

Cost of risk

The cost of risk includes movements in loss reserves on interbank and customer loans, fixed-income held-to-maturity securities (in the case of recognised risk of default by the issuer) and off-balance-sheet items (other than off-balance sheet derivatives), as well as loan losses, recoveries of loans written off in prior years, and movements in other provisions and reserves for credit risks and contingencies relating to these items.

Non-recurring items

Non-recurring income and expenses result from events or transactions that do not relate to the ordinary business operations or routine management of the company's assets and liabilities.
They represent material items of income and expense that do not depend on decisions made in connection with the routine management of the business or of the company's assets and liabilities, but which result from external events that are exceptional in terms of their infrequency and their impact on net income. Only items of this nature, that have a significant impact on profit and loss for the period, are classified as non-recurring income and expenses.

Corporate income tax

The overall rate of the French CIT amounts to 34.43 % (including 33 1/3 % of CIT plus 3.3 % of additional contribution based on the CIT amount).
The French budget law for 2017 provides for a gradual reduction of the corporate tax rate. However, for large companies, the new 28% rate will not be fully applied until 2020.

To the extent that the reduced rate will only fully apply from 2020 onwards, the deferred tax rate for French companies within the group remains at 34.43%, keeping in mind that in any case no deferred tax assets are recognized.
The rate applicable on contributions of foreign branches or subsidiaries is the rate applied in the countries in which they operate.

Tax consolidation

Dexia Crédit Local is in the scope of the tax consolidation the parent company of which since January 1, 2002 has been the permanent establishment (Dexia ES) located in France.
Dexia ES is solely liable for corporation tax and its additional contributions to be paid by the group. DCL's tax expense is recorded in the accounts on stand alone basis, as if there were no tax consolidation.
The savings generated by the tax consolidation group are recorded at Dexia ES (out off DCL's scope).
An amendment to the tax treaty signed in 2011 between Dexia ES and Dexia Crédit Local allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.
A second amendment signed in 2012 between Dexia ES and Dexia Crédit Local aims to exclude the subsidies received from Dexia ES when calculating the tax contribution of Dexia Crédit Local when they are neutralized within the framework of the overall consolidated tax result of the group.

Locations and activities in tax haven countries and territories

In compliance with Article L.511-45 of the French Monetary and Financial Code, it should be noted that Dexia Crédit Local has no offices (branches, subsidiaries or special purpose entities), affiliates or other exclusively or jointly controlled de facto or de jure interests in entities in countries that do not have administrative assistance agreements with France.

Company consolidating the financial statements of Dexia Crédit Local

Dexia, Place du Champ de Mars 5, B-1050 Brussels, Belgium.

2. Notes to the assets

2.1. Cash, balances with central bank and post offices (item I - assets)

a. Accrued interest

(in EUR million)	0

b. Detailed analysis, excluding accrued interest

(In EUR million)	As at 31/12/2015	As at 31/12/2016
Cash		
Deposits with central banks and issuing institutions	2,229	767
Deposits with postal checking accounts	0	0
TOTAL	**2,229**	**767**

2.2. Government securities eligible for Central Bank refinancing (item II - assets)

a. Accrued interest

(in EUR million)	91

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3	3 months to 1 year	1 to 5 years	Over 5 years
	3,194	3,123	0	61	690	2,372

c. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(in EUR million)	Held for trading	Available for sale	Held to maturity	
Costs as at 31/12/2015	**56**	**2,103**	**1,035**	**3,194**
Movements for the year:				
• acquisitions (1)	0	42	639	681
• disposals and redemptions	(6)	(712)	0	(718)
• transfers	0	0	0	0
• translation adjustments	0	(24)	(5)	(29)
• other	0	0	0	0
Costs as at 31/12/2016	**50**	**1,409**	**1,669**	**3,128**
Impairment as at 31/12/2015	**0**	**0**	**0**	**0**
Movements for the year:				
• charges	0	(5)	0	(5)
• recoveries	0	0	0	0
• translation adjustments	0	0	0	0
• other	0	0	0	0
Impairment as at 31/12/2016	**0**	**(5)**	**0**	**(5)**
Net carrying amount as at 31/12/2016	**50**	**1,404**	**1,669**	**3,123**

Additional information concerning government securities is provided in note 2.5

(1) The amounts of acquisition were from the integration of DCL Madrid's and DCL Lisbonne's securities porfolio in the Dexia Crédit Local scope

d. Transfers between portfolios

No transfers were made between portfolios in 2016

e. Listed and unlisted securities, excluding accrued interest

An analysis of listed and unlisted securities is presented in note 2.5.g.

f. Unrealised capital gains and losses on securitie

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Unrealised gains/losses (differences between market value and carrying amount)	13	6

g. "Available for sale" and "Held to maturity" portfolios, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Unrealised gains (redemption value higher than carrying amount)	240	250
Unrealised losses (redemption value lower than carrying amount)	1,331	1,272

2.3. Interbank loans and advances (item III - assets)

a. Accrued interest

(in EUR million)	3

b. Analysis by residual to maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	7,696	5,439	5,439	0	0	0
Term loans and advances	15,405	16,801	8,174	2,253	5,722	652
TOTAL	**23,101**	**22,240**	**13,613**	**2,253**	**5,722**	**652**

c. Analysis of non-performing loans, excluding accrued interest

No non-performing and litigious loans

d. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Subordinated interbank loans	1,221	831
Non-subordinated interbank loans	14,184	15,970
TOTAL	**15,405**	**16,801**

e. Analysis of subordinated non-performing loans, excluding accrued interest

No non-performing and litigious loans

2.4. Customer loans and advances (item IV - assets)

a. Accrued interest

(in EUR million)	233

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analysed
	32,482	34,952	1,646	2,431	8,053	22,822	0

c. Analysis by type of borrower, excluding accrued interest

(in EUR million)	As at 31/12/2015 Total	As at 31/12/2016 Public sector	Other sectors	Total
Performing loans	32,032	17,220	17,133	34,353
Restructured performing loans	0	0	0	0
Non-performing loans under collection	439	155	424	579
Doubtful non-performing loans	11	0	20	20
TOTAL	32,482	17,375	17,577	34,952

d. Analysis of non-performing loans, excluding accrued interest

VALUATION OF RISK (in EUR million)	As at 31/12/2015	As at 31/12/2016
Gross non-performing loans under collection	601	780
Accumulated impairment	(162)	(201)
NET NON-PERFORMING LOANS UNDER COLLECTION	439	579
Gross doubtful non-performing loans	41	76
Accumulated impairment	(30)	(56)
NET DOUBTFUL NON-PERFORMING LOANS	11	20

e. Analysis by degree of subordination, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Subordinated customer loans	4	4
Non-subordinated customer loans	32,478	34,948
TOTAL	32,482	34,952

2.5. Bonds and other fixed-income securities (item V - assets)

a. Accrued interest

(in EUR million)	388

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
	37,631	36,487	1,217	1,123	3,782	30,365

c. Analysis by type of issuer, excluding accrued intered

Analysis by type of issuer, excluding accrued intered (in EUR million)	As at 31/12/2015	As at 31/12/2016
Public sector issuers	15,629	16,010
Other issuers	22,002	20,477
TOTAL	37,631	36,487

d. Analysis by type of portfolio and movements for the year, excluding accrued interest

in EUR million	Banking activity and other: Held for trading	Available for sale	Held to maturity	Total
COSTS AS 31/12/2015	2,909	22,687	13,117	38,713
Movements for the year:				
• acquisitions	1,736	515	1,135	3,386
• disposals and redemptions	(290)	(3,935)	(751)	(4,976)
• transfers	0	0	0	0
• other movements	0	0	0	0
• translation adjustments	59	557	(193)	423
COSTS AS 31/12/2016	4,414	19,824	13,308	37,546
IMPAIRMENT AS AT 31/12/2015	0	(1,082)	0	(1,082)
Movements for the year:				
• charges	0	(84)	0	(84)
• recoveries	0	125	0	125
• transfers	0	0	0	0
• other movements	0	0	0	0
• translation adjustments	0	(18)	0	(18)
IMPAIRMENT AS AT 31/12/2016	0	(1,059)	0	(1,059)
NET CARRYING AMOUNT AS AT 31/12/2016	4,414	18,765	13,308	36,487

As at 31 December 2016, there were EUR 675 million in securities lent in the held-for-trading portfolio, EUR 5,566 million in the available-for-sale portflolio and EUR 3,819 million in the held-to-maturity portfolio,

e. Analysis by type of portfolio

	As at 31/12/2015				As at 31/12/2016			
in EUR million	Held for trading	Available for sale	Held to maturity	Total	Held for trading	Available for sale	Held to maturity	Total
Government securities	**56**	**2,150**	**1,089**	**3,295**	**50**	**1,434**	**1,730**	**3,214**
Gross carrying amount	56	2,176	2,053	4,285	50	1,469	2,631	4,150
Premiums/discounts	0	(73)	(1,018)	(1,091)	0	(60)	(962)	(1,022)
Related receivables	0	47	54	101	0	30	61	91
Impairment	0	0	0	0	0	(5)	0	(5)
Market value	56	2,703	2,462	5,221	50	1,881	2,948	4,879
Bonds and other fixed-income securities	**2,909**	**21,805**	**13,346**	**38,060**	**4,414**	**18,922**	**13,539**	**36,875**
Gross carrying amount	2,909	22,609	14,451	39,969	4,414	19,716	14,251	38,381
Premiums/discounts	0	78	(1,334)	(1,256)	0	108	(943)	(835)
Related receivables	0	200	229	429	0	157	231	388
Impairment	0	(1,082)	0	(1,082)	0	(1,059)	0	(1,059)
Market value	2,909	24,039	17,353	44,301	4,414	21,777	17,227	43,418
Equities and other variable-income	**0**	**183**	**0**	**183**	**0**	**152**	**0**	**152**
Gross carrying amount	0	221	0	221	0	187	0	187
Premiums/discounts	0	0	0	0	0	0	0	0
Related receivables	0	0	0	0	0	0	0	0
Impairment	0	(38)	0	(38)	0	(35)	0	(35)
Market value	0	191	0	191	0	170	0	170
Total securities portfolio	**2,965**	**24,138**	**14,435**	**41,538**	**4,464**	**20,508**	**15,269**	**40,241**
PROVISIONS FOR RISKS AND CHARGES(1)	0	1,485	0	1,485	0	1,414	0	1,414

(1) The EUR 1,414 million provision for risks and charges concerns losses on hedges of available-for-sale securities. This provision is presented as a liability (see note 3.5)

f. Analysis by type of counterparty

in EUR million	As at 31/12/2015 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2016 Held for trading	Available for sale	Held to maturity	Total
Government securities	**56**	**2,150**	**1,089**	**3,295**	**50**	**1,434**	**1,730**	**3,214**
Central governments	56	1,915	1,089	3,060	50	1,362	1,330	2,742
Local governments	0	37	0	37	0	72	383	455
Credit institutions	0	198	0	198	0	0	17	17
Bonds and other fixed-income securities	**2,909**	**21,805**	**13,346**	**38,060**	**4,414**	**18,922**	**13,539**	**36,875**
Central governments	0	1,944	94	2,038	0	1,249	102	1,351
Local governments	58	7,902	5,539	13,499	775	7,748	6,326	14,849
Credit institutions	691	2,971	2,320	5,982	1,604	1,768	2,421	5,793
Other private-sector entities	2,160	8,988	5,393	16,541	2,035	8,157	4,690	14,882
Equities and other variable-income	**0**	**183**	**0**	**183**	**0**	**152**	**0**	**152**
Equities and other variable-income securities	0	95	0	95	0	67	0	67
Mutual funds	0	88	0	88	0	85	0	85
Total securities portfolio	**2,965**	**24,138**	**14,435**	**41,538**	**4,464**	**20,508**	**15,269**	**40,241**

g. Analysis by listing of securities

in EUR million	As at 31/12/2015 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2016 Held for trading	Available for sale	Held to maturity	Total
Government securities	**56**	**2,150**	**1,089**	**3,295**	**50**	**1,434**	**1,730**	**3,214**
Listed securities(1)	56	2,146	1,089	3,291	50	1,432	1,727	3,209
Unlisted securities	0	4	0	4	0	2	3	5
Bonds and other fixed-income securities	**2,909**	**21,805**	**13,346**	**38,060**	**4,414**	**18,922**	**13,539**	**36,875**
Listed securities(1)	787	9,499	6,406	16,692	779	7,096	7,891	15,766
Unlisted securities	2,122	12,306	6,940	21,368	3,635	11,826	5,648	21,109
Equities and other variable-income	**0**	**183**	**0**	**183**	**0**	**152**	**0**	**152**
Listed securities(1)	0	100	0	100	0	92	0	92
Unlisted securities	0	83	0	83	0	60	0	60
Total securities portfolio	**2,965**	**24,138**	**14,435**	**41,538**	**4,464**	**20,508**	**15,269**	**40,241**

(1) "Listed" means quoted on a securities exchange

h. Analysis by degree of subordination, excluding accrued interest

in EUR million	As at 31/12/2015	As at 31/12/2016
Subordinated bonds and other subordinated fixed-income securities issued by credit institutions	0	0
Subordinated bonds and other subordinated fixed-income securities issued by other issuers	0	0
Non-subordinated bonds and other non-subordinated fixed-income securities	37,631	36,487
TOTAL	**37,631**	**36,487**
of which: listed subordinated bonds and other listed subordinated fixed-income securities	0	0

i. Transfers between portfolios

No transfers were made between portfolios in 2016

j. Held-for-trading portfolio, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Market-to-market gains	277	414

k. Available-for-sale and held-to-maturity portfolios, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Unrealised gains (redemption value higher than carrying amount)	1,404	2,691
Unrealised losses (redemption value lower than carrying amount)	2,660	3,526

l. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (in EUR million)	As at 31/12/2015	As at 31/12/2016
Gross non-performing loans under collection	186	181
Accumulated impairment	(48)	(42)
NET NON-PERFORMING LOANS UNDER COLLECTION	**138**	**139**

2.6. Equities and other variable-income securities (item VI - assets)

a. Analysis by type of portfolio and movements for the year

	Banking activity and other		Total
(in EUR million)	Held for trading	Available for sale	
Costs as 31/12/2015	**0**	**221**	**221**
Movements for the year:			
• acquisitions[(1)]	0	6	6
• disposals and redemptions[(2)]	0	(36)	(36)
• other movements	0	0	0
• translation adjustments	0	(5)	(5)
Cost as 31/12/2016	**0**	**186**	**186**
Impairment as at 31/12/2015	**0**	**(38)**	**(38)**
Movements for the year:			
• charges	0	(1)	(1)
• recoveries	0	2	2
• other movements	0	0	0
• translation adjustments	0	3	3
Impairment as at 31/12/2016	**0**	**(34)**	**(34)**
NET CARRYING AMOUNT AS AT 31/12/2016	**0**	**152**	**152**

(1) EUR 6 million of acquisition were the restructuring on the Ecofin Water investment funds.

(2) The total of EUR -36 millions corresponds to the asset refund in investment funds for EUR 33 million and to the units of UCITS refund for EUR 3 millions.

b. Transfers between porfolios (excluding insurance business)

No transfers were made between portfolios in 2016

c. Unrealised gains and losses on variable income securities

(in EUR million)	Carrying amount as at 31/12/2016	Market value as at 31/12/2016	*Net unrealised capital gain as at 31/12/2016*
Securities	152	170	18

2.7. Long-term equity investments (item VII - assets)

a. Accrued interest

(in EUR million)	0

b. Analysis by type of issuer and movements for the year

(in EUR million)	Related parties	Other long-term equity investments	Total
Cost as at 31/12/2015	**4,596**	**15**	**4,611**
Movements for the year:			
• acquisitions(1)	36	0	36
• disposals and redemptions(2)	(172)	(21)	(193)
• transfers(3)	(22)	22	0
• translation adjustments	2	0	2
• other movements	(435)	0	(435)
Cost as at 31/12/2016	**4,005**	**16**	**4,021**
Impairment as at 31/12/2015	**(3,301)**	**(7)**	**(3,308)**
Movements for the year:			
• charges(1)	(560)	0	(560)
• recoveries(2)	0	0	0
• reversals	0	0	0
• transfers(3)	0	0	0
• translation adjustments	0	0	0
• other movements	435	0	435
Impairment as at 31/12/2016	**(3,426)**	**(7)**	**(3,433)**
NET CARRYING AMOUNT AS AT 31/12/2016	**579**	**9**	**588**

(1) The movement of EUR 36 million corresponds to the merger bonus following to CBXIA1's liquidation and an impairment of Dexia Kommunalkredit Deutchland securities for EUR 560 million.
(2) The movements correpond to the liquidation of CBXIA1 of EUR -43 million, Dexia Real Estate Capital Markets of EUR -60 millions, Dexia LDG of EUR -20 millions and a decrease of CBXIA2's investment of EUR 69 millions
(3) The movements of EUR 22 million correspond to the deconsolidation of Dexia LDG and Dexia Mexico.
(4) The amount of EUR 435 million corresponds to the exit of Dexia Sabadell investment following the merger.

c. Listing of securities

(in EUR million)	Net carrying amount as at 31/12/2016	Market value as at 31/12/2016	Unrealised capital gain as at 31/12/2016
Listed securities	0	0	0
Unlisted securities	588		
TOTAL	**588**		

d. Significant investments

(in EUR million)	Gross carrying amount as at 31/12/2016	Impairment as at 31/12/2016	Net carrying amount as at 31/12/2016
Listed securities	0	0	0

Unlisted securities (in EUR million)	Gross carrying amount as at 31/12/2016	Impair-ment as at 31/12/2016	Net carrying amount as at 31/12/2016	% interest in capital	Interest in capital as at 31/12/2016	Last balance sheet date
TOTAL	**4,021**	**(3,433)**	**588**			
of which:						
DEXIA HOLDINGS Inc.	2,283	(2,283)	0	100.00 %	(117)	31/12/2016
DEXIA KOMMUNALBANK DEUTSCHLAND	793	(560)	233	100.00 %	663	31/12/2016
DEXIA CREDIOP	581	(581)	0	70.00 %	662	31/12/2016
DEXIA FLOBAIL	197	0	197	100.00 %	19	31/12/2016
CBX IA 2	66	0	66	100.00 %	121	31/12/2016
DEXIA ISRAEL BANK LTD	56	0	56	65.31 %	157	31/12/2016
DEXIA CLF BANQUE	20	0	20	100.00 %	32	31/12/2016
DEXIA CLF REGIONS BAIL	8	0	8	100.00 %	29	31/12/2016

2.8. Intangible assets (item VIII - assets)

Detailed analysis and movements for the year

(in EUR million)	Start-up costs	Other intangible assets	Total
GROSS CARRYING AMOUNT AS AT 31/12/2015	**0**	**138**	**138**
Movements of the year:			
• increases	0	23	23
• decreases	0	(7)	(7)
• other(1)	0	4	4
• translation adjustmens	0	1	1
GROSS CARRYING AMOUNT AS AT 31/12/2016	**0**	**159**	**159**
Amortisation and impairment as at 31/12/2015	**0**	**(116)**	**(116)**
Movements for the year:			
• charges	0	(10)	(10)
• recoveries	**0**	0	0
• other	0	(4)	(4)
• translation adjustments	0	(1)	(1)
Amortisation and impairment as at 31/12/2016	**0**	**(131)**	**(131)**
NET CARRYING AMOUNT AS AT 31/12/2016	**0**	**28**	**28**

(1) These flows are related to the integration of the DCL Madrid and DCL Lisbon branches in the scope of the Dexia Crédit Local accounts.

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

2.9. Tangible fixed assets (item IX - assets)

Detailed analysis and movements for the year

(in EUR million)	Land and buildings	Fixtures, equipment, furniture and vehicles	Other tangible non-current assets	Assets under construction and prepayments	Total
COST AS AT 31/12/2015	**0**	**7**	**19**	**0**	**26**
Movements of the year:					
• increases	0	0	0	0	0
• decreases	0	0	(1)	0	(1)
• other(1)	0	0	2	0	2
• translation adjustmens	0	0	0	0	0
COST AS AT 31/12/2016	**0**	**7**	**20**	**0**	**27**
AMORTISATION AND IMPAIRMENT AS AT 31/12/2015	**0**	**(6)**	**(16)**	**0**	**(22)**
Movements for the year:					
• charges	0	0	(1)	0	(1)
• recoveries	0	0	1	0	1
• other	0	0	(2)	0	(2)
• translation adjustments	0	0	0	0	0
AMORTISATION AND IMPAIRMENT AS AT 31/12/2016	**0**	**(6)**	**(18)**	**0**	**(24)**
NET CARRYING AMOUNT AS AT 31/12/2016	**0**	**1**	**2**	**0**	**3**

(1) These flows are related to the integration of the DCL Madrid and DCL Lisbon branches in the scope of the Dexia Crédit Local accounts.

2.10. Other assets and accruals (items XIII and XIV - assets)

Detailed analysis of other assets and accruals

(in EUR million)	As at 31/12/2015	As at 31/12/2016
OTHER ASSETS		
Premiums paid on swaptions issued	23	11
Premiums paid on options	6	5
Guarantee deposits paid[(1)]	27,186	27,434
Tax receivables	1	0
Deferred tax assets	71	271
Other non-current financial assets	0	0
Other	252	285
TOTAL OTHER ASSETS	**27,539**	**28,006**

(1) Guarantee deposits paid consist nearly entirely of collateral deposited under contracts with the primary counterparties trading on derivatives markets.

(in EUR million)	As at 31/12/2015	As at 31/12/2016
ACCRUALS		
Premiums and deferred charges on borrowings	36	53
Premiums on loans and other deferred charges on loans	32	98
Premiums and deferred charges on hedging transactions	1,118	878
Premiums and deferred charges on trading transactions	1,404	944
Accrued income on hedging transactions	660	591
Accrued income on trading transactions	5,998	5,036
Unrealised translation losses	381	234
Other accrued income	251	235
TOTAL ACCRUALS	**9,880**	**8,069**

2.11. Analysis of assets by currency

Classification by original currency

(in EUR million)	As at 31/12/2016
In EUR	75,230
In other EU currencies	16,402
In all other currencies	43,498
TOTAL ASSETS	**135,130**

3. Notes to the liabilities and equity

3.1. Interbank borrowings and deposits (item I - liabilities and equity)

a. Accrued interest

(in EUR million)	41

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits[(1)]	6,722	1,390	1,390	0	0	0
Term deposits	46,578	38,877	24,944	1,798	9,304	2,831
TOTAL	**53,300**	**40,267**	**26,334**	**1,798**	**9,304**	**2,831**

(1) Funding from central banks came to EUR 35 million as at 31 December 2016 (EUR 4.5 billion the previous year)

3.2. Customer deposits (item II - liabilities and equity)

a. Accrued interest

(in EUR million)	0

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	0	0	0	0	0	0
Term deposits	103	163	162	0	0	1
TOTAL	103	163	162	0	0	1

c. Analysis by type of issuer, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Public sector	0	0
Other sectors	103	163
TOTAL	103	163

3.3. Debt securities (item III - liabilities and equity)

a. Accrued interest

(in EUR million)	204

b. Analysis by residual maturity, excluding accrued interest

(in EUR million)	As at 31/12/2015	As at 31/12/2016	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	55,395	67,361	13,647	22,829	22,865	8,020
Debt securities	10,199	8,335	1,931	0	2,483	3,921
TOTAL	65,594	75,696	15,578	22,829	25,348	11,941

As at 31 December 2016, Dexia Credit Local's issues are covered by the State guarantee mechanism for EUR 71.4 billion. Medium and long-term borrowings, in the form of Euro Medium-Term Notes, BMTN (domestic short or medium-term notes) and bonds, amounted to EUR 67 billion.

c. Analysis by type of security and movements for the year, excluding accrued interest

(in EUR million)	Interbank and other negotiable debt securitites	Debt securities	Securities borrowings	Total
AS AT 31/12/2015	55,395	9,525	674	65,594
Movements for the year:				
• new issues	38,994	1,366	0	40,360
• redemptions	(26,762)	(5,334)	(170)	(32,266)
• translation adjustments	(265)	154	0	(111)
• other	0	2,094	25	2,119
VALEUR AU 31/12/2016	67,362	7,805	529	75,696

3.4. Other liabilities and accruals (item IV and V - liabilities and equity)

Details of other liabilities and accruals

Accruals and other liabilities (in EUR million)	As at 31/12/2015	As at 31/12/2016
OTHER LIABILITIES		
Guarantee deposits received[(1)]	4,180	3,778
Premiums on options sold	5	3
Other creditors	136	837
TOTAL OTHER LIABILITIES	**4,321**	**4,618**
ACCRUALS		
Deferred income on loans	50	66
Discounts recognised on purchase of receivables	1	11
Deferred income on hedging transactions	1,690	1,450
Deferred income on trading transactions	1,204	1,287
Deferred gains on hedging contracts	33	33
Accrued charges on hedging transactions	1,167	990
Accrued charges on trading transactions	6,168	5,228
Unrealised translation gains	208	206
Other deferred income	25	19
Other accrued charges	72	48
Other accrued liabilities	908	778
TOTAL ACCRUALS	**11,526**	**10,116**

(1) Evolution of cash collateral received

3.5. Provisions for risks and charges (item VI - liabilities and equity)

(in EUR million)	As at 31/12/2015	Charges	Recoveries	Transfers	Translation adjustments	As at 31/12/2016
PROVISIONS FOR RISKS AND CHARGES	**1,728**	**1,032**	**(1,092)**	**109**	**43**	**1,820**
• Pensions and similar commitments[(1)]	4	1	(1)	0	0	4
• Financing commitments	77	64	(55)	108	0	194
• Other financial instruments[(2)]	1,485	890	(1,004)	0	43	1,414
• Other risks and charges[(3)]	162	77	(32)	1	0	208
PROVISIONS FOR DEFERRED TAXES[(4)]	**66**	**199**	**(31)**	**0**	**0**	**234**
REGULATED PROVISIONS	**4**	**0**	**(3)**	**0**	**0**	**1**
• Provisions for medium and long-term loans	0	0	0	0	0	0
• Provisions for accelerated tax depreciation	4	0	(3)	0	0	1
• Provisions for investments	0	0	0	0	0	0
TOTAL	**1,798**	**1,231**	**(1,126)**	**109**	**43**	**2,055**

(1) Provisions for termination benefits and long-service awards.
(2) Provisions for risks on other financial instruments are presented in note 2.5 d for the breakdown by type of portfolio.
(3) Other provisions for risks and charges in 2016 primarily include a provision relating to the loan desensitisation activity for EUR 125 million.
(4) These flows are related to the integration of the DCL Madrid and DCL Lisbon branches in the scope of the Dexia Crédit Local accounts

3.6. Subordinated debt (item VIII - liabilities and equity)

a. Accrued interest (in EUR million)

(in EUR million)	1

b. Movements for the year, excluding accrued interest

(in EUR million)	Total
AS AT 31/12/2015	**434**
Movements of the year;	
• new issues	0
• redemptions	0
• translation adjustments	0
• other movements	0
AS AT 31/12/2016	**434**

c. Details of individual subordinated borrowings

Currency	Maturity	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	12/02/2019	106	a) Early repayment possible at each due date for interest payments with effect from 12/02/2014 after approval by the French Prudential Control Authority	Fixed rate 4.375 From 12/02/2014 Euribor 3M + 0.72
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	09/07/2017	252	a) Early repayment possible at each due date for interest payments with effect from 09/07/2012 after approval by the French Prudential Control Authority	EURIBOR 3M + 0.15 From 09/07/2012, EURIBOR 3M + 0.65
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	No fixed maturity	56	a) Early repayment possible at each due date for interest payments with effect from 18/11/2015 after approval by the French Prudential Control Authority	Fixed rate 4.30 from 2015 EURIBOR 3M + 1.73
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	
EUR	29/10/2018	20	a) Early repayment possible at each due date for interest payments with effect from 02/07/2013 after approval by the French Prudential Control Authority	EURIBOR 3M + 0.15 From 02/07/2013, EURIBOR 3M + 0.5
			b) Repayment at per value after all creditors but preferred ranking over subordinated profit-sharing loans and preference shares	
			c) No conversion	

3.7. Equity

Detailed analysis of equity

(in EUR million)	Amount
AS AT 31/12/2015:	
Capital stock	224
Additional paid-in capital	1,885
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(878)
Translation adjustments	(315)
Net loss for the year	60
Interim dividends	0
EQUITY AS AT 31/12/2015	**1,026**
Capital stock(1)	55
Additional paid-in capital(1) and (4)	703
Commitments to increase capital stock and additional paid-in capital	0
Reserves and retained earnings(2)	60
Legal reserve	0
Non-distributable reserve	0
Translation adjustments	(32)
Dividends paid (-)	0
Net loss for the year	(217)
Other movements	0
AS AT 31/12/2016	
Capital stock(2)	279
Additional paid-in capital	2,588
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(818)
Translation adjustments	(347)
Net profit for the year(3)	(217)
Interim dividends	0
EQUITY AS AT 31/12/2016	**1,535**

(1) The Extraordinary General Meeting of 28 June 2016 decided to increase the capital in cash of EUR 250 million by the issuance of new shares maintaining the preferential subscription rights of shareholders. The share capital increased therefore from EUR 223.657.776 to EUR 279.213.332 by issuing of 55.555.556 new shares with nominal value of EUR 1 issued at a unit price of EUR 4.5 with an issue premium of EUR 3.5 per share.
(2) The Ordinary General Meeting on 28 June 2016 resolved to allocate the EUR 60 million profit for 2015 to retained earnings, bringing the latter to EUR 818 million.
(3) A proposal was submitted to the ordinary shareholders' meeting to allocate the net profit for the year to retained earnings.
(4) The merger bonus of EUR 509 million related to the acquisition of Dexia Sabadell accounts in the accounts of Dexia Crédit Local which is included in the share and contribution premium.

3.8. Analysis of liabilities and equity by currency

Classification by currency of origin (in EUR million)	As at 31/12/2016
In EUR	75,731
In other EU currencies	16,402
In all other currencies	42,997
TOTAL LIABILITIES AND EQUITY	**135,130**

3.9. Other notes to the balance sheet

Transactions with related parties - Analysis by type

(in EUR million)			Total du poste	Of which, related parties[1]
Assets	Items III and IV	Interbank loans and advances and Customer loans and advances	57,428	15,830
	Items V, VI and VII	Securities held	37,615	322
	Items XIII and XIV	Other assets and accruals	36,075	241
Liabilities	Items I and II	Interbank borrowings and deposits and customer deposits	40,471	1,015
	Items III	Debt securities	75,900	0
	Items VIII	Subordinated debt	435	0
	Items IV and V	Other liabilities and accruals	14,734	221

(1) Related parties correspond to those from the Dexia Group's consolidation scope.

4. Notes to the off-balance sheet items

4.1. Financing commitments given (item I - off balance sheet)

This item includes financing commitments given and commitments given on securities and on loaned foreign currencies. Financing commitments on loans and lines of credit include loans approved but not disbursed as at 31 December 2016.

Analysis by type of beneficiary

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Commitments to credit institutions	1,227	794
Commitments to customers	3,221	2,496
Currencies lent but not yet delivered	0	0
TOTAL	**4,448**	**3,290**

4.2. Guarantee commitments given (item II - off-balance sheet)

a. Analysis by type of beneficiary

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Commitments to credit institutions	33,594	29,991
Commitments to customers	4,081	3,685
TOTAL	**37,675**	**33,676**

b. Analysis by type of transaction

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Guarantee commitments given:		
• guarantees	37,675	33,676
• endorsements	0	0
• liens on assets	0	0
TOTAL	**37,675**	**33,676**

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

At the date when the annual financial statements were prepared, there were no contingent liabilities, risks or losses that were not quantifiable.

4.3. Assets pledged as collateral

(in EUR million)	As at 31/12/2015[1]	As at 31/12/2016[1]
As collateral for debts and commitments of the company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	36,529	38,534
TOTAL	**36,529**	**38,534**

(1) Carrying amount of the assets pledged.

4.4. Financing and guarantee commitments received (item IV and V - off-balance sheet)

These items include all financing commitments and guarantees received from credit institutions, and commitments received on securities and foreign currency borrowings.

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Financing commitments received from credit institutions	1,718	5,718
Currencies borrowed but not yet received	413	0
Guarantees received from credit institutions	2,699	2,427
Guarantees received from local authorities or claims on local authorities acquired as guarantees	4,928	5,335
Other commitments received	11,864	10,723
TOTAL	**21,622**	**24,203**

4.5. Commitments related to securities (item VI - off-balance sheet)

a. Analysis by type of transaction

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Purchases		
• spot	0	0
• forward	17	0
Sales		
• spot	0	0
• forward	17	0
TOTAL	**34**	**0**

b. Isolated open positions

Unrealised gains on isolated open positions	0

4.6. Commitments related to foreign currency transactions (item VII - off-balance sheet)

Spot and forward currency transactions are presented at their value in their accounting currency, translated at the closing foreign exchange rate at year-end.
The line "Foreign currencies to be received" amounted to EUR 30 billion and the line "Foreign currencies to be delivered" to EUR 30 billion as at 31 December 2016."

4.7. Commitments related to forward and derivative financial instruments (item VIII - off-balance sheet)

a. Analysis by type of use and instrument

Type of transaction (in EUR million)	As at 31/12/2015	As at 31/12/2016	Hedging		Trading		Fair value as at 31/12/2016
			Micro-hedging	Macro-hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[1]	25,868	29,503			1,836	5,819	(393)
• forward currency purchases and sales	6,586	12,001	10,953	0	1,048	0	
• currency and interest rate swaps	19,282	17,502	1,720	9,175	788	5,819	(393)
• currency futures	0	0	0	0	0	0	
• currency options	0	0	0	0	0	0	
• forward currency agreements	0	0	0	0	0	0	
Other financial instruments	262,960	295,395	81,857	71,001	1,726	140,811	(16,556)
Interest rate instruments[2]							
• interest rate swaps	255,964	288,393	81,857	67,744	49	138,743	(16,973)
• futures	79	1,498		0	643	855	
• forward rate agreements	150	0	0	0	0	0	
• interest rate options	2,407	1,895	0	682	0	1,213	81
Other forward purchases and sales[3]							
• other options	4,360	3,609	0	2,575	1,034	0	336
• other futures	0	0	0	0	0	0	
• other forward purchases and sales	0	0	0	0	0	0	
TOTAL	**288,828**	**324,898**	**94,530**	**80,176**	**3,562**	**146,630**	**(16,949)**

(1) Amount to be delivered
(2) Face value / notional amount.
(3) Purchase / selling price agreed between the parties

b. Analysis by type of market

Type d'opérations (in EUR million)	Over-the-countermarket	Organised market	Total as at 31/12/2016
Foreign currency instruments	29,503	0	29,503
Other financial instruments:			
• interest rate instruments	290,931	855	291,786
• other forward purchases and sales	3,609	0	3,609
TOTAL	**324,043**	**855**	**324,898**

c. Analysis of forward contracts and options

Type of transaction (in EUR million)	Forward contracts	Options	Total as at 31/12/2016
Foreign currency instruments	29,503	0	29,503
Other financial instruments:			
• interest rate instruments	290,535	1,251	291,786
• other forward purchases and sales	479	3,130	3,609
TOTAL	**320,517**	**4,381**	**324,898**

d. Analysis by residual maturity

Type of transaction (in EUR million)	Up to 1 year	1 to 5 years	Over 5 years	Total at at 31/12/2016
Foreign currency instruments	20,927	1,330	7,246	29,503
Other financial instruments:				
• interest rate instruments	111,876	34,201	145,709	291,786
• other forward purchases and sales	337	0	3,272	3,609
TOTAL	**133,140**	**35,531**	**156,227**	**324,898**

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e. Off-balance sheet forward transactions, including securities, currencies and other forward and derivative financial instruments

Commitments related to interest rate derivatives are recorded in compliance with ANC Regulation 2014-07:
• forward contracts are carried at the nominal value of the contracts;
• options are carried at the nominal value of the underlying instrument.

Dexia Credit Local uses forward financial instruments as part of the three following strategies:

• Asset liability management

This includes all transactions intented to cover and manage the total interest rate exposure of the Company. ALM is carried out primarily through the use of swaps and futures contracts.

• Specific hedging

Hedges are used to cover interest rate risks on a specific item or a group of items with similar characteristics, identified at the outset.

Intruments meeting this definition consist primarily of swaps acquired as micro hedges of primary issues, bonds in the available for sale or held to maturity portfolios, and Customer loans. The hedging instruments have the effect of creating synthetic variable or adjustable-rate assets or liabilities, which are immunised against interest rate risks.

Foreign currency swaps are also classified as hedges when they are used to transform sources of funding in one currency into the currency used in the transactions they finance in the goal of reducing currency risk.

• Position management

The position management strategy includes two types of activities:
– specialist trading portfolio management;
– position-taking.

The specialist trading portfolio management activity includes all transactions entered into with local authorities and the symmetrical transactions executed with banking counterparties. The transactions include primarily interest rate swaps. Specialised duration management is employed for the transactions included in this activity.

Derivatives held in the position-taking portfolio are intented to keep isolated open positions in order to take advantage of any favourable movements in interest rates or exchange rates. These transactions include primarily interest rate swaps and forward foreign exchange transactions.

f. Risk monitoring

Risk is measured by the Risk Management department. The main risk indicator used by Dexia Credit Local, and throughout the entire Dexia Group, is VaR. The VaR calculated by the Dexia Group measures the potential loss over a 99% confidence interval over a 10-day period. The risk management system consists of allocating to each entity, and for each type of financial market activity, the following items:
• a list of foreign currencies and transactional structures likely to be used;
• a VaR limit.

4.8. Transactions with related parties

Analysis by type

(in EUR million)			Total	Of which, related parties[1]
Off-balance sheet	Item I	Financing commitments given	3,290	1,567
	Item II	Guarantee commitments given	33,676	6,222
	Item IV	Financing commitments received	5,718	0
	Item V	Guarantee commitments received	18,485	0
	Items III, VI, VII et VIII	Other commitments given and received	393,409	517

(1) Related parties are entities included within the consolidation scope of the Dexia Group.

5. Notes to the income statement

5.1. Interest income and interest expense (items I and II - income statement)

(in EUR million)		As at 31/12/2015	As at 31/12/2016
INTEREST INCOME ON:			
Interbank loans	(a)	181	211
Customer loans and advances	(b)	924	1,978
Bonds and other fixed-income securities	(c)	1,067	1,264
Macro hedging transactions	(d)	724	1,311
TOTAL INTEREST INCOME		**2,896**	**4,764**
INTEREST EXPENSE ON:			
Interbank borrowings and deposits	(a)	(478)	(480)
Customer deposits	(b)	(206)	(1,378)
Bonds and other fixed-income securities	(c)	(604)	(891)
Macro hedging transactions	(d)	(1,157)	(1,772)
TOTAL INTEREST EXPENSE		**(2,445)**	**(4,521)**
NET INTEREST EXPENSE		**451**	**243**

a. Interest income and expense on interbank transactions

This item includes EUR 43 million on transactions with related parties.

It also includes an expense relating to the sovereign guarantee amounting to EUR 31.5 million in 2016 (EUR 34 million in 2015).

b. Interest income and expense on customer transactions

Interest income and expense on customer loans and deposits represented a net amount of EUR 600 million.

It also includes EUR 33 million in income from financing commitments and guarantees.

c. Interest income and expense on bonds and other fixed-income securities

The heading includes EUR 1,264 million in accrued interest on bonds and other fixed-income securities, amortisation of discounts and premiums on held-to-maturity and available-for-sale securities, and the related hedging gains and losses on these securities.

Interest expense amounted to EUR 891 million for Dexia Credit Local.

In addition to interest expense on bonds and other fixed-income securities, the heading also includes interest rate hedging gains and losses on specifically identified negotiable debt, bond and subordinated debt issues.

d. Income and expense on macro-hedging transactions

Income and expense on macro-hedging transactions amounted to EUR 1,311 million and EUR 1,772 million respectively.

5.2. Income from variable-income securities (item III - income statement)

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Related parties	0	0
Other related parties and long-term investments	1	0
Equities and other variable-income securities	1	13
TOTAL	**2**	**13**

5.3. Analysis of fees and commissions (items IV and V - income statement)

a. Analysis of fee and commission income (item IV - income statement)

Type (in EUR million)	As at 31/12/2015	As at 31/12/2016
Loans	1	0
Other financial services	1	2
TOTAL	**2**	**2**

b. Analysis of fee and commission expenses (item V - income statement)

Type (in EUR million)	As at 31/12/2015	As at 31/12/2016
Loans	0	0
Corporate actions	(3)	(7)
Other financial services	(6)	(5)
TOTAL	**(9)**	**(12)**

5.4. Analysis of gains and losses on portfolio transactions (item VI - income statement)

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Gains (losses) on:		
• held-for-trading securities	91	47
• foreign currency transactions	(100)	66
• other financial instruments	(169)	(136)
Sub-total	**(178)**	**(23)**
• available-for-sale and similar securities[(1)]	(75)	365
Sub-total	**(75)**	**365**
• Held-to-maturity securities	**120**	**84**
Sous-total	**120**	**84**
TOTAL	**(133)**	**426**

(1) This line includes gains and losses on disposal and charges of recoveries from provisions in respect of the available-for-sale securities, as well as gains and losses on portfolio securities.

Gains and losses on disposal and charges of recoveries from provisions on portfolio securities are as follows:

(in EUR million)	As at 31/12/2015	As at 31/12/2016
• charges to impairment	(1,643)	(1,573)
• recoveries of impairment	1,433	1,766
Sub-total	**(210)**	**193**
• disposal losses	(59)	(3)
• disposal gains	194	175
Sub-total	**135**	**172**
TOTAL	**(75)**	**365**

5.5. General operating expenses (item IX - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Personnel costs	**(123)**	**(125)**
• Salaries and wages	(84)	(81)
• Social security	(37)	(43)
• Restructuring cost	(2)	(1)
Other administrative expenses	**(173)**	**(162)**
• impôts et taxes	(65)	(56)
• autres frais administratifs	(108)	(106)
TOTAL	**(296)**	**(287)**

b. Employee Information

	31/12/2015	31/12/2016
Total employee as at 31 December	**793**	**811**
• executive management	50	44
• other management	590	594
• administrative personnel	153	173
Personnel costs (in EUR million)	**(117)**	**(124)**
• salaries and direct benefits	(80)	(81)
• payroll taxes	(25)	(28)
• other personnel costs	(12)	(15)
Provisions for pensions (in EUR million)	**(4)**	**0**
• charges (-)	(7)	(3)
• recoveries (+)	3	3
TOTAL	**(121)**	**(124)**

5.6. Cost of risk (item XI - income statement)

(in EUR million)	Charges and losses	Reversals and recover	Total as at 31/12/2016
Provisions for impairment and losses on loans	(154)	145	(9)
Provisions for risks	(69)	68	(1)
Regulatory provisions	0	0	0
TOTAL	**(223)**	**213**	**(10)**

The cost of risk came out at EUR -10 million in 2016 and essentially comprised:

- a EUR 11.1 million specific provision on customer loans relating to desensitization loan,
- a reversal of provision on bonds activity for EUR 8 million
- a charge of EUR -31 million for New York branch linked to the energy sector

5.7. Net gains (losses) on non-current assets (item XII - income statement)

a. Detailed analysis

(in EUR million)	As at 31/12/2015		Total as at 31/12/2015	As at 31/12/2016		Total as at 31/12/2016
	Affiliated entreprises	Others		Affiliated entreprises	Others	
Charges to impairment(1)	(52)	0	(52)	(560)	0	(560)
Recoveries of impairment	0	13	13	0	0	0
SUB-TOTAL	**(52)**	**13**	**(39)**	**(560)**	**0**	**(560)**
Disposal losses	0	(13)	(13)	(2)	0	(2)
Disposal gains(2)	103	1	104	12	0	12
SUB-TOTAL	**103**	**(12)**	**91**	**10**	**0**	**10**
TOTAL	**51**	**1**	**52**	**(550)**	**0**	**(550)**

(1) The amount of EUR 560 million corresponds to the impairment of Dexia Kommunalkredit Deutchland securities
(2) Realized gain of EUR 12 million linked to a liquidation of Dexia Real Estate Capital Markets.

b. Analysis by type

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Investments in associates	1	0
Investments in related parties	51	(550)
TOTAL	**52**	**(550)**

5.8. Other banking income and expenses

a. Other banking income (item VII - income statement)

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Other banking income	1	1
Other miscellaneous income	0	18
TOTAL	**1**	**19**

b. Other banking expenses (item VIII - income statement)

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Other banking expenses	0	0
Other miscellaneous expenses	0	(31)
TOTAL	**0**	**(31)**

5.9. Non-recurring items (item XIII - income statement)

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Non-recurring income	0	0
Non-recurring expenses	0	0

5.10. Corporate income tax (item XIV - income statement)

a. Analysis of tax expense

(in EUR million)	As at 31/12/2015	As at 31/12/2016
Corporate income tax	0	28
Deferred taxes	1	1
TAXES ON NET INCOME FOR THE YEAR (A)	**1**	**29**
Provisions for tax litigation	**0**	(52)
OTHER TAXES (B)	**0**	**(52)**
TOTAL (A) + (B)	**1**	**(23)**

In 2016, the tax rate used for France was 34.43%.
The tax rate applicable to foreign branches is generally lower.

In the light of Dexia Crédit Local's position and the likelihood of its ability to recover deferred taxes, deferred taxes have been accrued.

b. Exceptions to the general valuation principles, as provided for by tax law

(in EUR million)	As at 31/12/2015	As at 31/12/2016
REGULATORY PROVISIONS	**0**	**0**
Provision for medium - and long-term loans	0	0
Provision for investments	0	0
ACCELERATED TAX DEPRECIATION	**0**	**0**

c. Tax consolidation

The Dexia établissement stable(Dexia ES) in France has been head of the tax consolidation group that includes Dexia Credit Local since 2002.
An amendment to the tax convention between Dexia ES and Dexia Credit Local, signed in 2011, now allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Credit Local.

In terms of calculating Dexia Credit Local's tax contribution, a second amendment, signed between Dexia ES and Dexia Credit Local in 2012, is intented to eliminate subsidies received from Dexia ES when they are neutralised in connection with the tax consolidation group's overall earnings.

5.11. Financial relationships with members of the Management Board and the Board of Directors

(in EUR million)	
COMPENSATION PAID TO THE MEMBERS OF THE MANAGEMENT BOARD AND THE BOARD OF DIRECTORS OF THE COMPANY IN RESPECT OF THEIR FUNCTIONS WITHIN THE COMPANY AND ITS SUBSIDIARIES AND ASSOCIATED COMPANIES	
Management Board	2
Board of Directors	0
TOTAL	**2**

AMOUNT OWED, CONTINGENT LIABILITIES IN THEIR FAVOUR AND OTHER MATERIAL COMMITMENTS UNDERWRITTEN IN THEIR FAVOUR	
Management Board	0
Board of Directors	0
TOTAL	**0**

5.12. Analysis by geographical region and line of business

a. Analysis by geographical region

	As at 31/12/2016		
(in EUR million)	Net banking income (loss)	Gross operating income	Net income (loss)
France	37	(190)	(748)
Foreign branches	624	556	531
TOTAL	**661**	**366**	**(217)**

6. Subsidiaries and equity investments as at 31 december 2016

Company	Capital Stock	Additionalpaid-in capital, reserves and retained earnings	Revenue or net banking income (loss) for last fiscal year	Netincome(loss) forlastfiscalyear
1 - DETAILS OF SUBSIDIARIES AND EQUITY INVESTMENTS WHOSE CARRYING AMOUNT EXCEEDS 1% OF DEXIA CRÉDIT LOCAL'S CAPITAL STOC				
A - SUBSIDIARIES (50% TO 100% OF EQUITY)				
(in EUR)				
Dexia Crediop Via Venti settembre N. 30 - I00187 Roma	450,220,000	489,921,000	73,426,000	5,516,000
Dexia Holdings Inc.* 445 Park Avenue, 7th floor, NY 10022 New York	2,792,135,515	(2,914,010,442)	(2,907,629)	4,717,957
Dexia Kommunalbank Deutschland AG Charlottenstr. 82 - D - 10969 Berlin	432,500,000	230,466,559	(104,193,963)	(219,953)
Dexia Israël Bank Ltd 19 Ha'arbaa Str, Hatichon Tower - Tel Aviv 64739	43,316,862	184,698,970	33,557,047	12,365,710
CBX. IA 2 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	43,168,010	(430,348)	11,950,386	78,499,795
Dexia Flobail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	197,100,166	(173,562,704)	(17,675,484)	(4,484,553)
Dexia CLF Banque 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	7,625,000	26,743,000	(1,024,681)	(1,934,609)
Dexia CLF Regions Bail 1 Passerelle des Reflets - Tour Dexia La Défense 2 - 92913 La Défense	7,625,000	17,083,679	2,992,095	4,011,981

(1) This amount includes regulatory provisions for EUR 212.5 million.
** Companies that produce financial statements only under IFRS.*

2 – GENERAL INFORMATION	
A - OTHER SUBSIDIARIES NOT INCLUDED IN SECTION 1-A	
– French companies	
– Foreign companies	
B - OTHER SUBSIDIARIES AND EQUITY INVESTMENTS WHERE EQUITY IS LESS THAN 10%	
– French companies	
– Foreign companies	

Interest in equity (%)	Carrying amount of stock		Dividends received by Dexia Crédit Local during the fiscal year	Loans and advances granted by Dexia Crédit Local	Guarantees given by Dexia Crédit Local	Activity
	Gross	Net				
K						
70.00%	581,223,585	0	0	9,713,872,693	5,100,000,000	Bank, credit institution
100.00%	2,283,076,144	0	0	146,558,245	0	Holding company
100.00%	793,339,375	233,339,375	0	1,720,000,061	500,000,000	Bank, credit institution
65.31%	56,002,387	56,002,387	0	108,108,553	118,317,467	Bank, credit institution
100.00%	65,899,116	65,899,116	0	158,000,000	0	Lease financing of local investments
100.00%	197,111,054	197,111,054	0	366,407,792	1,103,798,998	Lease financing of local investments
100.00%	19,738,631	19,738,631	0	15,000,814	71,120,974	Bank, credit institution
100.00%	7,941,401	7,941,401	0	423,199,141	123,311,010	Real estate leasing

	1,746,110	733,014	26,400	249,670,434	2,643,650	
	4,947,603	2,383,748	0	0	0	
	9,664,788	4,879,699	466,903	393,682,766	12,056,567	
	0	0	0	0	0	

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Statutory auditors’ report on the financial statements

For the year ended December 31st, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31st, 2016, on:

- the audit of the accompanying financial statements of Dexia Credit Local;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Dexia Credit Local as at December 31st, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in the note 1.2 to the financial statements which stipulates that the financial statements of Dexia Credit Local have been prepared on a going concern basis.

II. Justification of our assessments

In accordance with the requirements of Article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments that we bring the following matters to your attention:

Accounting principles

Going concern basis

Our work consisted in assessing the items used by the Board of Directors to justify maintaining the going concern basis of accounting and in gaining an understanding of the underlying documentation and more specifically the business plan and funding forecast.

We also reviewed the information disclosed in the notes to the financial statements with respect to the going concern basis of accounting and related uncertainties.

Accounting estimates

Measurement of financial instruments

Your Company, as mentioned in the note 1.2.b to the financial statements, uses methodologies and internal models to value financial instruments that are not listed on active markets, and for the recognition of any impairment.

Our work consisted in reviewing the control procedures for the identification of financial instruments that can no longer be traded on an active market or whose valuation parameters are no longer observable; in determining the models used to measure them; in evaluating the appropriateness of the data and assumptions; and in verifying that the risks and results related to these instruments were taken into account as well as financial information including sensitivity to alternative assumptions.

Provisions for credit and counterparty risks

As mentioned in note 1.2.b to the financial statements, your company records impairment provisions to cover the credit risks inherent to its.

We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of impairment loss cover provided by specific and collective provisions.

Impairment of securities portfolio

Your Company calculates any impairment of its available-for-sale securities portfolio based on their market value, net of any micro-hedges, as described in the section on "Securities transactions – Available for sale and held to maturity securities" of the note 1.2.b to the financial statements.

Your Company calculates any impairment in its portfolio investments, participating interests and other long-term securities on the basis of their value in use, as described in the sections on "Securities transactions – Portfolio investments" and "Long-term investments – Participating interests and other long-term securities" of the note 1.2.b to the financial statements.

We have assessed the reasonableness of these estimates taking into account the specific context of a still uncertain economic environment and continuing high volatility in financial markets.

Provisions for legal risks

As mentioned in Note 3.5 to the financial statements, your company has set aside a provision for liabilities and charges in order to cover the litigation risk relating to structured loans.

We analyzed the assumptions used to calculate the provision for litigation, including those relating to the expected changes in the legislative framework.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

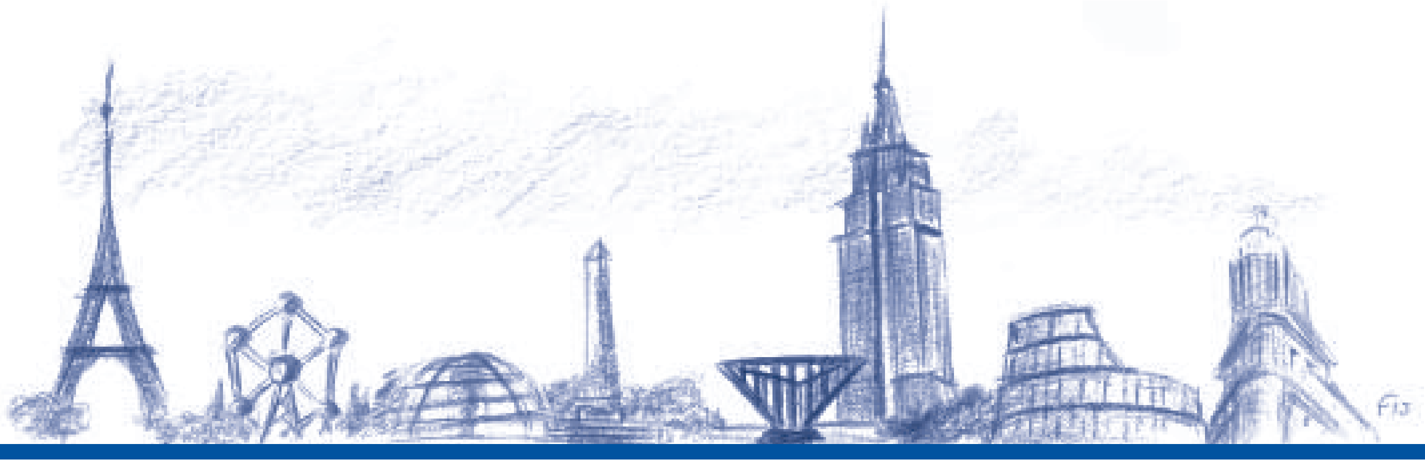
We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (Code de Commerce) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Neuilly-Sur-Seine and Courbevoie, March 28, 2017

French original signed by the statutory auditors

DELOITTE & ASSOCIÉS		MAZARS	
Pascal COLIN	Jean-Vincent COUSTEL	Franck BOYER	Claire GUEYDAN-BRUN



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1. Regarding the company

Company history	Dexia Crédit Local was one of the three principal entities of the Dexia Group, the Franco-Belgian financial group created in 1996 through the merger of Crédit Local de France and Crédit Communal de Belgique, two credit institutions specialised in the financing of local governments and participants in local economies. Dexia Crédit Local, set against the major restructuring of the Group and the implementation of the Group's orderly resolution plan, is the main subsidiary of the Dexia Group.
Corporate name **Trade name**	As specified in its by-laws, the Company's corporate name is Dexia Crédit Local. The Company uses the trade name Dexia.
Country of origin **Incorporation date and term**	The country of origin of the Company is France. It was incorporated in Paris on 28 August 1989 for a term of 99 years.
Registration number	The Company is registered with the Clerk of the Commercial Court of Nanterre under no. 351 804 042, and its APE business identifier code is 6492Z.
Registered office	Since 1 March 2007, the Company's registered office and principal place of business has been located at: Tour CBX La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense, France (tel: +33 1 58 58 77 77).
Legal form **Applicable legislation**	Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors, as governed by Articles L.225- 17 et seq. of the French Commercial Code and Article L.511-1 of the French Monetary and Financial Code.
Business purpose	The purposes for which the Company is established are: • to conduct in France and abroad any and all credit operations promoting local development, including notably public services and facilities, mainly for the benefit of local governments and public-sector corporations, local government-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development and housing schemes, or which have entered into an agreement with a local government for the construction or management of local public facilities; • to carry out, for the benefit of the above parties, insurance brokerage activities and any advisory and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legisla-tive provisions relating to the exercise of certain regulated professions; • to receive cash deposits from local governments and local public entities in accordance with the regulations applicable to such bodies; • to hold the funds lent to customers, pending their use; and • to issue debt securities in France and abroad in order to fund the Company's lending operations. • For this purpose, the Company may: • create subsidiaries; • hold shares in companies whose activities are likely to facilitate the achievement of the Company's business purpose; • create and manage guarantee funds to ensure repayment of loans made to the agencies mentioned in the first paragraph of this section. The Company may also carry out any and all transactions falling within the scope of its business purpose on behalf of agencies and institutions set up to serve the public interest.
Fiscal year	The Company's fiscal year begins 1 January and ends 31 December.

Appropriation of net income	Net income for the year, less any prior-year losses and the appropriations provided for in Article 37 of the by-laws (5% for the legal reserve prescribed by law) plus any retained earnings, is available for distribution to shareholders. The shareholders' meeting determines the fraction of income available for distribution to be paid out to shareholders in the form of dividends, based on the recommendations of the Board of Directors. The balance of income available for distribution, if any, is allocated either to retained earnings or to one or more reserves, by resolution of the Shareholders' Meeting, which also approves the use to be made of said reserves. The shareholders' meeting may also resolve to pay dividends out of distributable reserves; in this case, the related resolution must clearly indicate from which reserves the dividends are to be taken. Insofar as possible, dividends are, however, taken first from distributable income for the period. The terms and conditions for payment of dividends are set by the share-holders' meeting or, failing that, by the Board of Directors, but dividends must be paid within nine months of the fiscal year-end, unless this period is extended by order of the President of the French Commercial Court ruling on an application by the Board of Directors. Notwithstanding the foregoing, and in the cases provided for by applicable legislation, the Board of Directors is authorised to pay interim dividends to be deducted from the total dividends for the year just ended or the current year, prior to the approval of the related financial statements. The amounts and payment dates of such interim dividends will be decided by the Board of Directors. When the final dividend is set, the shareholders' meeting will be responsible for verifying that the provisions of the above-mentioned paragraph have been fully complied with in respect of the total dividend (including any interim dividend).
Shareholders' meetings	**Notice of shareholders' meetings** Shareholders' meetings are called in accordance with applicable regulations. They are conducted at the Company's registered office or any other location mentioned in the meeting notice. All shareholders are entitled to obtain copies of the documents they need to be able to make informed decisions and to make a reasoned assessment of the management and control of the Company. The types of documents concerned and the rules governing their transmission to or consultation by shareholders are prescribed by law and all applicable regulations. **Right to attend shareholders' meetings** All shareholders are entitled to attend shareholders' meetings upon presentation of proof of identity, provided that their shares are fully paid-up. Shareholders may choose to be represented by another shareholder. Proxies should be filed at the registered office at least five days before the shareholders' meeting. **Voting rights** Shares carry voting rights based on the proportion of capital represented. Each share entitles the owner to one vote. Each person present at the shareholders' meeting is entitled to exercise one vote for each share held and for each share for which he or she holds a proxy.
Place where Company's legal documents may be viewed **Responsibility for information**	All documents and information concerning the Company may be consulted at its registered office. Please address any requests to: Wouter Devriendt, Chief Executive Officer Véronique Hugues, Executive Vice-President (+33 1 58 58 69 39).

2. Outlook[1]

Recent events	Despite the significant progress made by the Dexia Group since the end of 2008 with a view to reducing the severe financial imbalances which had weakened it at the time, 2011 represented a very difficult turning point for the Group due to a further deterioration in the markets. The acceleration of the sovereign debt crisis in the eurozone had called into question the underlying assumptions and the ef-fective completion of the initial transformation plan mapped out in 2008. To take this deteriorated environment into consideration, in October 2011 the Dexia Group announced and implemented an orderly resolution plan for its activities in order to avoid a rapid deterioration in its liquidity position and the materialisation of a systemic risk for the Belgian and French States, as well as the entire European banking sector. This orderly resolution plan, under which the Group's assets are to be managed on a run-off basis, is based essentially on two aspects: the disposal of Dexia's main operating entities and the provision of a funding guarantee by the Belgian, French and Luxembourg States. 2012 was primarily marked by the implementation of the various sections of this plan and its consequences in terms of the change of scope, purpose and governance for the Dexia Group. The Dexia Group's revised resolution plan was approved by the European Commission on 28 December 2012. This marked a decisive step forward for the im-plementation of this plan, with this validation paving the way for the EUR 5.5 billion capital increase by Dexia SA and the scheme set up for a tripartite liquidity guarantee of EUR 85 billion by the Belgian, French and Luxembourg States, allowing Dexia Crédit Local to refinance itself on the capital markets and to manage its orderly resolution over the long term. After significant efforts made in 2013 and 2014 on disposing of its main commercial activities, splitting large sections of its activities and restoring diversity in its funding sources, in 2015 and 2016, Dexia actively continued to simplify its structure. Major work was begun to reshape and to optimise the operating model, in particular the outsourcing of certain market activities, the elaboration of reporting, the processing of transactions and the development and maintenance of IT systems. Furthermore, the centralisation of activities in Spain and Portugal was finalised, on 1 November 2016, with the cross-border merger by absorption of Dexia Crédit Local and its subsidiary Dexia Sabadell.
Trends	Subject to the risks and contingencies identified in the present Reference Docu-ment, the Dexia Group and Dexia Crédit Local in particular will be moving forward with the implementation of the principles set out in the Group's revised orderly resolution plan, as approved by the European Commission on 28 December 2012. Dexia Crédit Local no longer has any commercial activities in it previous markets, including the public sector financing. After having sold the main part of its commercial franchises, the Group will focus now on the run-off management of outstanding loans, using the guarantee mechanism from the abovementioned States, and the desensitising of sensitive structured loans.
Control	To the best of the Company's knowledge, no agreement exists – including under the terms of the restructuring plan in effect – whose implementation could, at a later date, bring about a change in its control.
Legal and arbitration proceedings	Readers are invited to refer to the text presented on pages 39 to 42 of this report concerning litigations.
Material changes	Since the last fiscal year for which audited financial statements have been published, the Dexia Group continued the implementation of its orderly resolution plan. In this context, it proceeded with the sale of some of its commercial franchises.
Major contracts	The Company currently has no material contracts (other than those entered into as part of the normal course of its business) that may give any member of the Group a right or obligation with a material impact on its ability to fulfil its obligations to holders of issued securities.

(1) The forward-looking elements presented in this section must not be interpreted as guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The forward-looking statements include a certain number of risks, which may or may not be known or established, but remain subject to contingencies, notably resulting from changes in the macroeconomic environment within which the Dexia Group operates. If they were to materialise, these risks could result in the Group's future development, performance and results being different from the objectives suggested and set out.

Declaration of the person responsible for the registration document *(document de référence)*

The person responsible for the Dexia Crédit Local registration document *(document de référence)* is:

Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local.

Declaration of the person responsible for the registration document *(document de référence)*

I the undersigned, Wouter Devriendt, Chief Executive Officer of Dexia Crédit Local,

Hereby declare, after having taken all reasonable measures to this end, that, to the best of my knowledge, the information contained in this registra-tion document is accurate and contains no omission that would alter its meaning.

Hereby declare, to the best of my knowledge, that the financial statements have been prepared in accordance with all applicable accounting stand-ards and present a true and fair view of the assets, financial position and results of the Company and of all the companies included in the scope of consolidation, and that the management report on page 2 of this document presents a true and fair view of changes in the revenues, results and financial position of the Company and of all the companies included in the scope of consolidation and a description of the main risks and uncertain-ties to which they are exposed.

I have obtained an audit opinion from the Statutory Auditors in which they state that they have verified the information concerning the financial position and the accounts provided in this document and have reviewed the entire document.

The historical financial data presented in this document have been discussed in reports by the Statutory Auditors on pages 149 and 188 of this registration document, as well as those included by reference for fiscal years 2014 and 2015, respectively on pages 177 and 214 of the 2014 registration document and pages 160 and 198 of the 2015 registration document.

The Statutory Auditors' reports on the parent company and consolidated financial statements for 2014 and 2015 contain some remarks.

For fiscal year 2016, without qualifying their opinion, the Statutory Auditors drew attention to the matter set out in note 1 (§1.1.1.1) to the consolidated financial statements which stipulates that the consolidated financial statements of Dexia Crédit Local have been prepared on a going concern basis.

La Défense, 27 April 2017

Wouter Devriendt
Chief Executive Officer

Cross-reference table

Headings in the schedule in note XI of article 14 of Commission regulation (EC) n° 809/2004

		Pages
11.1	Historical financial data	2014* and 2015** registration documents
11.2	Financial reports	
	Consolidated financial statements	12 to 14 / 76 to 148
	Annual financial statements	14 to 16 / 154 to 187
11.3	Audit of the annual historical financial data	
11.3.1	Statutory Auditors' report on the consolidated financial statements Statutory Auditors' report on the annual financial statements	149 188
11.3.2	Other information in the registration document verified by the Statutory Auditors	2 to 46 / 50 to 72 /
11.3.3	Financial data in the registration document not taken from the audited financial statements	NA
11.4	Date of the most recent financial information	
11.4.1	Last fiscal year for which the financial data were audited	2016
11.5	Interim financial data	
11.5.1	Quarterly and six-month data Audit of interim financial data	NA NA
11.6	Legal and arbitration proceedings	25 to 27 / 194
11.7	Material changes in financial position	9 to 10 / 194
12.	Major contracts	194
13.	Information from third parties, declarations of specialists and declarations of interests	NA
14.	Documents available to the public	
	Place where documents may be consulted during the period of validity of the registration documents	193

**In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2014 and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 177 and 216 of the 2014 registration document (filed on 28 April 2015 with the French Financial Markets Authority under D. 15-0420).*

***In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2015, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 160 and 198 of the 2015 registration document (filed on 28 April 2016 with the French Financial Markets Authority under D.16-0430).*

Dexia Crédit Local's registration document 2016 has been published by the Communication Department.
This report is also available in French.
In case of discrepancy between the English and the French versions of the registration document,
the text of the French version shall prevail.
Due to environmental concern, Dexia Crédit Local decided not to print its annual report.
It can be downloaded on www.dexia-creditlocal.fr

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VAT: FR 49 351 804 042

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